

**\$7,350,000**  
**General Obligation Refunding Bonds, Series 2017**

**\$9,250,000**  
**Combination Tax and Limited Surplus Revenue**  
**Certificates of Obligation, Series 2017**

"Aa1" **MOODY'S**  
INVESTORS SERVICE

"AAA"



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# RatingsDirect®

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## Summary:

# Keller, Texas; General Obligation

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## Summary:

# Keller, Texas; General Obligation

### Credit Profile

US\$8.98 mil comb tax and ltd surplus rev certs of oblig ser 2017 dtd 07/15/2017 due 02/15/2037

*Long Term Rating* AAA/Stable New

US\$7.29 mil GO rfdg bnds ser 2017 dtd 07/15/2017 due 02/15/2029

*Long Term Rating* AAA/Stable New

### Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Keller, Texas' series 2017 general obligation (GO) refunding bonds and combination tax and limited surplus revenue certificates of obligation. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the city's GO bonds and certificates of obligation outstanding. The outlook is stable.

The bonds are payable from revenue from a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the city. The certificates are payable from revenue from a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the city, and surplus net revenue of the city's water system, not to exceed \$1,000. Given the limited nature of the revenue pledge, we rate the certificates based on the city's GO pledge. State statutes limit the maximum ad valorem tax rate for home rule cities to \$2.50 per \$100 of taxable assessed valuation (AV) for all city purposes. Administratively, the Texas attorney general will permit the allocation of \$1.50 of the \$2.50 maximum tax rate for ad valorem tax debt service. In fiscal 2017, the city is levying 43 cents, of which 11.64 cents is dedicated to debt service and the remaining 31.36 cents for operations. Despite the limitations imposed by the state levy limit law, we did not make a rating distinction for the limited-tax GO pledge given the city's flexibility under the levy limit. We believe the city possesses the financial stability and flexibility to sustain identical ratings on its unlimited- and limited-tax GO bonds. Proceeds from the bonds will refund a portion of the city's debt outstanding for present value savings. Proceeds from the certificates will fund water, sewer, road, and fire station improvements.

Keller's GO bonds are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013 on RatingsDirect, U.S. local governments are considered to have moderate sensitivity to country risk. Keller's GO pledge is the primary source of security on the debt; this severely limits the possibility of negative sovereign intervention in the payment of the debt or in the operations of the city. The institutional framework in the U.S. is predictable for local governments, allowing the city significant autonomy and independent treasury management, and there is no history of government intervention. Keller has considerable financial flexibility, as demonstrated by its very strong fund general balance as a percentage of expenditures as well as very strong liquidity.

The rating reflects our opinion of the city's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 39% of operating expenditures;
- Very strong liquidity, with total government available cash at 78.2% of total governmental fund expenditures and 4.1x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 19.3% of expenditures and net direct debt that is 140.1% of total governmental fund revenue, but rapid amortization, with 81.4% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

### **Very strong economy**

We consider Keller's economy very strong. The city, with an estimated population of 44,050, is located in Tarrant County in the Dallas-Fort Worth-Arlington MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 166% of the national level and per capita market value of \$121,862. Overall, the city's market value grew by 3.9% over the past year to \$5.4 billion in 2017. The county unemployment rate was 3.9% in 2016.

Keller is located in northeast Tarrant County, approximately 10 miles north of Fort Worth on U.S. Route 377, and 25 miles northwest of downtown Dallas. The city has continued to benefit from its location in the metroplex, including its proximity to the Dallas-Fort Worth International Airport. Easy access to major employment centers and transportation routes in the area contributed to significant tax base growth, with market value more than doubling since 2000. The top 10 taxpayers are very diverse, accounting for 4.3% of fiscal 2017 market value, and include mixed-use and multifamily developers as well as retail shopping centers.

The city is mostly residential, with single-family homes representing 85% of fiscal 2017 market value. Residential values account for the majority of new AV growth. However, several manufacturing firms are located in the city, as well as a variety of commercial establishments, medical facilities, restaurants, retail shops and grocery stores. Officials report that recent commercial additions include multiple restaurants as well as new office and retail space. Planned developments include a hotel and an event center.

With approximately 15% of the city undeveloped, we anticipate that the growth will continue over the next couple of years but we don't expect material changes to the city's economic fundamentals.

### **Strong management**

We view the city's management as strong, with good financial policies and practices under our FMA methodology, indicating our view that financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

We revised Keller's management score to strong from very strong based on our assessment of the city's long-term financial planning. We understand that no formal long-term financial planning is in place, although officials have

discussed plans to institute such plans in the future.

Highlights of other practices include the use of historical trends to support conservative revenue and expenditure assumptions. The council receives monthly budget-to-actual reports. A five-year rolling capital improvement plan is updated annually as a part of the budgeting process, with funding sources identified for all years. The council reviews the city's investment policy annually and receives quarterly investment reports. Keller has a policy that targets a minimum of 19.2% of operating expenses in reserve, with a maximum of 50.0%. Reserves in excess of the maximum are to be used for one-time expenditures, or management is to reduce revenue. If reserves fall below the minimum, the city shall implement the provisions of its financial management contingency fund to restore them. The city has also adopted a formal debt management policy that discusses when debt can be issued and amortization schedules, and that seeks to limit annual principal and interest payments to 25% of operating expenses, GO debt to 15% of AV, and the debt service tax rate to 40% of the total tax rate.

### **Strong budgetary performance**

Keller's budgetary performance is strong, in our opinion. The city had operating surpluses of 9.3% of expenditures in the general fund and of 4.4% across all governmental funds in fiscal 2016. Our assessment accounts for our expectation that budgetary results could deteriorate somewhat from 2016 results in the near term.

We adjusted fiscal 2016 general fund performance for a one-time \$9.6 million transfer to the newly established capital projects fund. The city has previously assigned portions of general fund balance for various capital projects.

The strong general fund performance in fiscal 2016 resulted from favorable expenditure variances. The city's primary general fund revenue sources were property taxes (43%), sales tax (17%), and franchise fees (12%). Public safety is the largest expenditure category, accounting for 50% of general fund expenditures in fiscal 2016.

The city adopted a balanced fiscal 2017 budget. Year-to-date general fund revenue and expenditures are trending positively and the city anticipates a 3% general fund surplus. The city has not finalized its fiscal 2018 budget, but we anticipate that its budgetary performance will remain strong over the next two years given historically positive variances.

### **Very strong budgetary flexibility**

Keller's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 39% of operating expenditures, or \$11.9 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Fiscal 2016 available fund balance represents a significant decline from that of fiscal 2015, when it was \$20 million, or 65% of expenditures. However, the decline was due to a transfer of previously assigned reserves to the capital projects fund. Although we believe that management will continue to transfer funds in excess of its maximum 50% reserve policy to fund capital projects, there are no plans for additional large transfers and we expect that budgetary flexibility will remain very strong and in excess of 30% of operating expenditures over the next two years.

### **Very strong liquidity**

In our opinion, Keller's liquidity is very strong, with total government available cash at 78.2% of total governmental fund expenditures and 4.1x governmental debt service in 2016. In our view, the city has strong access to external

liquidity if necessary, as demonstrated through its access to the market and issuance of GO bonds over the past 20 years. Keller has historically had what we consider very strong cash balances and, given management's demonstrated ability to maintain balanced operations, we do not believe its cash position will materially weaken over the next two years. All of the city's investments comply with Texas statutes and the city's internal investment policy. At fiscal year-end 2016, the city's investments were diversified in certificates of deposit, state investment pools, and federal securities, which we do not consider aggressive. The city has no direct purchase agreements or privately placed debt that could pressure its liquidity.

### **Weak debt and contingent liability profile**

In our view, Keller's debt and contingent liability profile is weak. Total governmental fund debt service is 19.3% of total governmental fund expenditures, and net direct debt is 140.1% of total governmental fund revenue. Approximately 81.4% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

The city plans to issue approximately \$7.6 million in new debt in the next two fiscal years and about \$4.0 million annually thereafter, in line with its capital improvement plan.

Keller's combined required pension and actual other postemployment benefit (OPEB) contributions equated to 6% of total governmental fund expenditures in 2016. The city made its full annual required pension contribution in 2016.

The city contributes to a nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). Under state law governing the TMRS, an actuary determines the contribution rate annually. Using updated reporting standards in accordance with Governmental Accounting Standard Board Statement Nos. 67 and 68, the city recorded a net pension liability of \$17 million as of Dec. 31, 2015, the most recent actuarial valuation date, and the plan reported a funded ratio of 79.8%.

The city provides OPEBs in the form of health insurance benefits through a single-employer defined benefit medical plan. Eligible retirees have the option to continue medical insurance coverage until eligible for Medicare or another medical plan. The retired employee pays 100% of the premium. Annual cost is determined actuarially. The plan is funded on a pay-as-you-go basis. The plan reported a net liability of \$1.2 million as of Dec. 31, 2015, the most recent actuarial valuation date.

The city also participates in the Supplemental Death Benefits Fund, which is the cost-sharing, multi-employer defined benefit group-term life insurance coverage operated by TMRS. The city may terminate coverage and discontinue participation by adopting an ordinance before Nov. 1 of any year to be effective the following Jan. 1. The city has historically fulfilled the contractually required rate as determined by an annual actuarial valuation.

### **Strong institutional framework**

The institutional framework score for Texas municipalities is strong.

## **Outlook**

The stable outlook reflects our opinion that Keller will likely continue to benefit from its location in the Dallas-Fort Worth-Arlington MSA, allowing for continued tax base growth. The outlook also reflects our expectation that the city

will likely maintain its very strong budgetary flexibility and strong budgetary performance. Finally, the outlook reflects our expectation that the city's debt and contingent liabilities profile will likely remain weak but that the city will likely issue additional debt in a manner that will not significantly increase overall budgetary pressure related to debt service carrying charges. As such, we do not expect to change the rating during the two-year outlook period. However, we could lower the rating if the city were to experience overall financial deterioration, resulting in a significant decrease in available reserves.

## Related Research

2016 Update Of Institutional Framework For U.S. Local Governments

### Ratings Detail (As Of July 7, 2017)

Keller comb tax and ltd surplus rev certs of oblig ser 2012A dtd 06/01/2012 due 02/15/2013-2027

<i>Long Term Rating</i>	AAA/Stable	Affirmed
Keller GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Keller GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Keller GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Keller GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

#### **Keller GO**

<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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## CREDIT OPINION

5 July 2017

New Issue

Rate this Research >>

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## City of Keller, TX

New Issue - Moody's Assigns Aa1 to City of Keller's, TX two GOLT issues

### Summary Rating Rationale

Moody's Investors Service has assigned a Aa1 to the City of Keller's, TX \$7.3 million General Obligation Refunding Bonds, Series 2017, and approximately \$9 million Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2017. At the same time, Moody's has maintained the Aa1 on \$69.6 million in previously issued limited tax debt.

The Aa1 reflects the growing tax base anchored by a largely residential community, and a history of conservative budgeting that has resulted in healthy and steady reserves. The Aa1 also reflects high resident wealth indices and manageable debt and pension exposure.

The Aa1 general obligation limited tax (GOLT) rating is the same as the Moody's internal assessment of the issuer's hypothetical general obligation unlimited tax (GOULT) debt, reflecting the city's ample taxing headroom which offsets the limitation under the property tax caps, lack of full faith and credit pledge, and inability to override the statutory tax cap.

### Credit Strengths

- » Largely residential base enjoys stable assessed valuation growth
- » Healthy reserve levels
- » High resident wealth indices
- » Significant flexibility under state mandated property tax rate caps

### Credit Challenges

- » Limited land available for development which would likely slow expansion
- » Elevated overlapping debt

### Rating Outlook

Outlooks are not usually assigned to local government credits with this amount of debt outstanding.

### Factors that Could Lead to an Upgrade

- » Continued local expansion driving further increases in the base; further diversification of the tax base
- » Further growth in available reserves

- » Further diversification of the tax base

## Factors that Could Lead to a Downgrade

- » Tax base contraction
- » Structural imbalances within the budget leading to a decrease in reserves
- » Significant debt issuance absent corresponding increase in tax base

## Key Indicators

Exhibit 1

Keller (City of) TX	2012	2013	2014	2015	2016
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 4,014,014	\$ 4,110,658	\$ 4,284,187	\$ 4,535,245	\$ 5,166,564
Full Value Per Capita	\$ 100,948	\$ 100,574	\$ 102,216	\$ 105,209	\$ 120,461
Median Family Income (% of US Median)	196.6%	197.4%	196.9%	198.8%	198.8%
<b>Finances</b>					
Operating Revenues (\$000)	\$ 37,209	\$ 39,469	\$ 41,693	\$ 43,211	\$ 44,319
Fund Balance as a % of Revenues	33.1%	39.8%	41.2%	49.5%	35.2%
Cash Balance as a % of Revenues	43.8%	41.8%	45.8%	56.6%	37.8%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 78,609	\$ 72,479	\$ 65,323	\$ 61,125	\$ 69,625
Net Direct Debt / Operating Revenues (x)	2.1x	1.8x	1.6x	1.4x	1.6x
Net Direct Debt / Full Value (%)	2.0%	1.8%	1.5%	1.3%	1.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.9x	0.9x	1.1x	1.1x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.9%	0.9%	1.0%	1.0%

Fund and cash balances are for the operating funds which include the general and debt service funds.  
Source: City of Keller, TX Comprehensive Annual Financial Reports FY 2012 - 2016, Moody's Investors Service

## Detailed Rating Considerations

### Economy and Tax Base: Growing Residential Base With Sizeable Increase in FY 2017

The City of Keller should continue to benefit from ongoing economic initiatives supporting assessed valuation growth in the near to medium term, as the city approaches build out. Located 10 miles north of [Fort Worth](#) (Aa2 stable), the city is largely a bedroom community with over 88% of its tax base comprised of residential property. Population growth within the city has historically been strong, recording an increase of 44.9% in the 2010 US Census, over the prior decade. Since then, estimates reflect an increase of 8.5% to approximately 43,107 residents. Wealth levels in the area are high with the median family income, equal to 198.8% of the nation. With proximity to several employment centers spread throughout the Dallas-Fort Worth metropolitan area, the city's April 2017 unemployment rate of 3.3% compared very favorably to the state's 4.5%, and the nation's 4.1%.

Favorable migration patterns have fueled historical steady demand for property, with the city reporting an average annual increase of 6% in assessed values over the past five years. In fiscal 2017 alone, assessed values grew an impressive 13.9% to \$5.2 billion. Estimates for fiscal 2018 reflect an increase of 7% to \$5.7 billion. City officials report strong ongoing economic activity in the local area, consistent with larger trends Moody's has observed within the Dallas-Fort Worth metropolitan area. The residential market is reportedly steady and keeping pace with demand, with new homes prices starting in the \$600,000s. Commercial investment is also enjoying a boost with an array of projects including retail, office building, hotel, as well as event center construction. Total ongoing

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new construction within the city is estimated at \$22 million. City officials estimate that the city is about 80% - 85% build out, and anticipate that longer term development will likely benefit from redevelopment as well as revaluation, as available land diminishes.

### **Financial Operations and Reserves: Steady Operating Performance, Healthy Reserve Levels With Significant Flexibility Under State Mandated Property Tax Caps**

The city's financial position will likely remain steady, supported by an experienced management team that utilizes conservative budgeting practices.

Excluding fiscal 2016, the city reported multiple years of operating surpluses, which have steadily augmented reserve levels, and kept reserves above the city's mandated minimum of 70 days in the general fund. Within the past five years, the general fund balance has consistently exceeded the fiscal 2016 low point of 37% of revenues. In fiscal 2016, the general fund reported a \$6.1 million draw, following a \$10 million transfer out for various citywide one-time initiatives. At the end of the fiscal year, the available fund balance was \$11.9 million, a healthy 34.1% of revenues. Including the debt service fund, available operating revenues totaled \$15.6 million 35.2% of revenues.

The fiscal 2017 budget was balanced. Year to date, officials report that total revenues are 1% higher than the budget. Property tax revenues which account for 54.5% of the operating revenues are largely in line with the budget, while sales taxes (13%) are 0.5% higher than the budget, or about 3.5% higher than the prior year. Expenditures are under budget with the largest positive variance from savings related to personnel costs. Since budget adoption, council has authorized \$1 million in incentives for a hotel construction. If the incentive is expended this year, the city projects a \$1 million increase in the general fund. The debt service fund is expected to increase by \$600,000 by fiscal year end. Preliminary planning for fiscal 2018 is underway and city officials anticipate an increase in revenues (3.5% to 4% in property taxes, and 2.5% in sales taxes), while expenditures are projected to increase by 4% total, including a compensation adjustment for employees, ultimately resulting in a balanced budget.

The city's current property tax rate of \$4.30 per \$1,000 of assessed values is sizeably lower than the \$25 allowed by the state for total operations. Of the total, the state will not permit more than \$15 to be allocated for debt service. In fiscal 2017, the debt service tax rate was \$1.16, with \$3.14 for operations.

#### **LIQUIDITY**

In line with the operating performance, the city's cash position has remained favorable with the general fund reporting cash and investments that totaled \$13 million, 37.4% of revenues in fiscal 2016. Including the debt service fund, total cash was \$16.7 million, 37.8% of operating revenues.

### **Debt and Pensions: Manageable Debt and Pension Costs**

The city's affordable debt profile should remain manageable despite anticipated debt issuance within the next five years. Including the current sale, the debt burden is 1.4% on a fiscal 2017 valuation. Within its five year capital improvement plan, the city has some infrastructure needs that will likely be funded with a combination of grants and debt (\$28 million). Outside of the projects, the city expects all other needs will be related to maintenance and will be funded with available cash.

#### **DEBT STRUCTURE**

All of the city's debt is fixed rate. Including the new sale, the debt service schedule is descending with final maturity scheduled for fiscal 2037.

#### **DEBT-RELATED DERIVATIVES**

The city is not party to any derivative agreements.

#### **PENSIONS AND OPEB**

The city participates in the Texas Municipal Retirement System (TMRS), a multiple-employer agent plan administered by the state. In fiscal 2016, the city reported a net unfunded pension liability of \$17.3 million. Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, was \$54.6 million, in fiscal 2016. The three year average ANPL was 1.13 times of operating revenues or 0.97% of the full value. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the City's reported liability information, but to improve comparability with other rated entities.

For the year ended September 30, 2016, the city recognized total pension expense of \$2.8 million or 6.4% of operating fund revenues. The contribution rate was above the actuarial determined contribution rate. The city's fiscal 2016 contribution rate was also above the Moody's calculated "tread water" level of \$2.6. The "tread water" indicator measures the annual government contribution required to prevent the reported net pension liability from growing, under reported assumptions. Contributions above this level cover all net pension liability interest plus pay down some principal; this is stronger from a credit perspective compared to contributions below this level. Ratios comparing government contributions to the "tread water" level and "tread water" costs to government revenues shed light on budgetary fixed cost burdens.

The city provides other post employment benefits (OPEB) for employees in the form of health insurance benefits. In fiscal 2016, the city paid 33.8% (\$48,737) of the annual required OPEB cost. At the end of the fiscal year, the city reported an OPEB liability of \$1.2 million, all of which was unfunded.

The city's fixed costs (pension using the treadwater, OPEB contributions and annual debt service) was \$9.9 million, or 22.3% of the total operating revenues.

### **Management and Governance: Strong Institutional Framework Score, Management Team Guided by Policies**

Texas Cities have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Property taxes, one of the sector's major revenue sources are subject to a cap, which cannot be overridden. However, the cap of \$25 per \$1,000 of assessed values with no more than \$15 allocated for debt, still allows for significant revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Texas is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

The city demonstrates good governance by multiyear capital and financial planning. The city also utilizes policies to guide its financial planning with a fund balance policy that mandates a minimum of 70 days of expenditures in the general fund (maximum of 182 days), and 10% of average outstanding annual payments in the debt service fund (subject to bond covenant requirements) amongst others. The policy also prescribes a contingency plan if the general fund balance falls below the minimum.

### **Legal Security**

The bonds and certificates are secured by a direct and continuing annual ad valorem tax levied on all taxable property, within the limits prescribed by law. The certificates are additionally secured by a limited pledge, not to exceed \$1,000, of surplus net revenues of the city's utility system.

### **Use of Proceeds**

Proceeds from the sale will be used for infrastructure development within the city. Proceeds from the bonds will be used to refund certain maturities of the city's 2009 general obligation bonds and certificates of obligations for an expected net present value savings of 7%, and no extension of final maturity.

### **Obligor Profile**

The City of Keller is a residential community located 10 miles north of the City of Fort Worth. The city's 2015 estimated population was 43,107.

### **Methodology**

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology.

## Ratings

Exhibit 2

### Keller (City of) TX

Issue	Rating
Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2017	Aa1
Rating Type	Underlying LT
Sale Amount	\$8,980,000
Expected Sale Date	07/18/2017
Rating Description	General Obligation Limited Tax
General Obligation Refunding Bonds, Series 2017	Aa1
Rating Type	Underlying LT
Sale Amount	\$7,290,000
Expected Sale Date	07/18/2017
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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REPORT NUMBER

1079775

**SAVINGS**

**City of Keller, Texas**  
**\$7,350,000 General Obligation Refunding Bonds, Series 2017**  
**Tax-Exempt Rates as of 07/18/2017 (AAA/Aa1)**  
**\*\*\* FINAL \*\*\***

Date	Prior Debt Service	Refunding Debt Service	Savings
09/30/2018	330,360.00	261,007.78	69,352.22
09/30/2019	330,360.00	261,700.00	68,660.00
09/30/2020	918,360.00	849,368.75	68,991.25
09/30/2021	923,655.00	855,081.25	68,573.75
09/30/2022	927,310.00	860,343.75	66,966.25
09/30/2023	933,957.50	865,156.25	68,801.25
09/30/2024	938,427.50	866,875.00	71,552.50
09/30/2025	940,716.25	870,350.00	70,366.25
09/30/2026	940,822.50	869,300.00	71,522.50
09/30/2027	948,457.50	878,300.00	70,157.50
09/30/2028	943,706.25	875,900.00	67,806.25
09/30/2029	946,660.00	877,200.00	69,460.00
	10,022,792.50	9,190,582.78	832,209.72

**Savings Summary**

Net PV Savings	722,102.77
Percentage savings of refunded bonds	9.589678%

Note: FINAL

**BOND DEBT SERVICE**

City of Keller, Texas  
**\$7,350,000 General Obligation Refunding Bonds, Series 2017**  
Tax-Exempt Rates as of 07/18/2017 (AAA/Aa1)  
**\*\*\* FINAL \*\*\***

Period Ending	Principal	Coupon	Interest	Debt Service
09/30/2018	30,000	2.000%	231,007.78	261,007.78
09/30/2019	30,000	2.000%	231,700.00	261,700.00
09/30/2020	625,000	2.250%	224,368.75	849,368.75
09/30/2021	645,000	2.250%	210,081.25	855,081.25
09/30/2022	665,000	2.250%	195,343.75	860,343.75
09/30/2023	685,000	2.250%	180,156.25	865,156.25
09/30/2024	705,000	3.000%	161,875.00	866,875.00
09/30/2025	730,000	3.000%	140,350.00	870,350.00
09/30/2026	755,000	4.000%	114,300.00	869,300.00
09/30/2027	795,000	4.000%	83,300.00	878,300.00
09/30/2028	825,000	4.000%	50,900.00	875,900.00
09/30/2029	860,000	4.000%	17,200.00	877,200.00
	<b>7,350,000</b>		<b>1,840,582.78</b>	<b>9,190,582.78</b>
		<b>True Interest Cost (TIC)</b>	<b>2.199434%</b>	

Note: FINAL

**SUMMARY OF BONDS REFUNDED**

City of Keller, Texas  
**\$7,350,000 General Obligation Refunding Bonds, Series 2017**  
Tax-Exempt Rates as of 07/18/2017 (AAA/Aa1)  
**\*\*\* FINAL \*\*\***

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
<b>\$4,000,000 General Obligation Bonds, Series 2009, 2009:</b>					
SERIAL	02/15/2020	4.000%	200,000.00	02/15/2019	100.000
	02/15/2021	4.100%	210,000.00	02/15/2019	100.000
	02/15/2022	4.200%	220,000.00	02/15/2019	100.000
	02/15/2023	4.300%	235,000.00	02/15/2019	100.000
	02/15/2024	4.400%	245,000.00	02/15/2019	100.000
	02/15/2025	4.450%	255,000.00	02/15/2019	100.000
	02/15/2026	4.500%	270,000.00	02/15/2019	100.000
	02/15/2027	4.550%	280,000.00	02/15/2019	100.000
	02/15/2028	4.600%	295,000.00	02/15/2019	100.000
	02/15/2029	4.650%	310,000.00	02/15/2019	100.000
			2,520,000.00		
<b>\$8,310,000 Combination Tax and Revenue Certificates of Obligation, Series 2009, 2009_CO:</b>					
SERIAL	02/15/2020	4.000%	400,000.00	02/15/2019	100.000
	02/15/2021	4.000%	420,000.00	02/15/2019	100.000
	02/15/2022	4.100%	440,000.00	02/15/2019	100.000
	02/15/2023	4.200%	460,000.00	02/15/2019	100.000
	02/15/2024	4.300%	485,000.00	02/15/2019	100.000
	02/15/2025	4.400%	510,000.00	02/15/2019	100.000
	02/15/2026	4.500%	530,000.00	02/15/2019	100.000
	02/15/2027	4.600%	565,000.00	02/15/2019	100.000
	02/15/2028	4.650%	585,000.00	02/15/2019	100.000
	02/15/2029	4.700%	615,000.00	02/15/2019	100.000
			5,010,000.00		
			7,530,000.00		

Average coupon of refunded bonds      4.476663%

Note: FINAL

**BOND DEBT SERVICE**

**City of Keller, Texas**  
**\$9,250,000 Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2017**  
**Tax-Exempt Rates as of 07/18/2017 (AAA / Aa1)**  
**\*\*\* FINAL \*\*\***

Period Ending	Principal	Coupon	Interest	Debt Service
09/30/2018	770,000	2.000%	261,496.12	1,031,496.12
09/30/2019	785,000	3.000%	243,525.00	1,028,525.00
09/30/2020	695,000	2.250%	223,931.25	918,931.25
09/30/2021	895,000	2.250%	206,043.75	1,101,043.75
09/30/2022	915,000	2.250%	185,681.25	1,100,681.25
09/30/2023	935,000	2.250%	164,868.75	1,099,868.75
09/30/2024	960,000	3.000%	139,950.00	1,099,950.00
09/30/2025	200,000	3.000%	122,550.00	322,550.00
09/30/2026	210,000	3.000%	116,400.00	326,400.00
09/30/2027	215,000	3.000%	110,025.00	325,025.00
09/30/2028	220,000	4.000%	102,400.00	322,400.00
09/30/2029	230,000	4.000%	93,400.00	323,400.00
09/30/2030	240,000	4.000%	84,000.00	324,000.00
09/30/2031	250,000	4.000%	74,200.00	324,200.00
09/30/2032	260,000	4.000%	64,000.00	324,000.00
09/30/2033	270,000	4.000%	53,400.00	323,400.00
09/30/2034	280,000	4.000%	42,400.00	322,400.00
09/30/2035	295,000	4.000%	30,900.00	325,900.00
09/30/2036	305,000	4.000%	18,900.00	323,900.00
09/30/2037	320,000	4.000%	6,400.00	326,400.00
	<b>9,250,000</b>		<b>2,344,471.12</b>	<b>11,594,471.12</b>
		<b>True Interest Cost (TIC)</b>	<b>2.652583%</b>	

Note: FINAL

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. The securities referenced herein may not be sold nor may offers to buy be accepted prior to the time the Preliminary Official Statement is delivered in final form. Under no circumstances shall the Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

Ratings:  
Moody's: "Aa1"  
S&P: "AAA"  
(See "OTHER INFORMATION - Ratings" herein)

(See "Continuing Disclosure of Information" herein)

Dated July 7, 2017

**NEW ISSUE - Book-Entry-Only**

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

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



**\$7,290,000\***  
**CITY OF KELLER, TEXAS**  
**(Tarrant County)**  
**GENERAL OBLIGATION REFUNDING BONDS, SERIES 2017**

**Dated Date: July 15, 2017** **Due: February 15, as shown on page 2**  
**Interest Accrues from Delivery Date**

**PAYMENT TERMS . . .** Interest on the \$7,290,000\* City of Keller, Texas General Obligation Refunding Bonds, Series 2017 (the "Bonds") will accrue from the delivery date (the "Delivery Date"), will be payable February 15 and August 15 of each year until maturity or prior redemption, commencing February 15, 2018, 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 integral multiples thereof. **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 Obligations - 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 OBLIGATIONS - 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 Vernon's Texas Code Annotated ("V.T.C.A."), Texas Government Code, Chapter 1207, as amended, and are direct obligations of the City of Keller, Texas (the "City"), payable from an 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 OBLIGATIONS - Authority for Issuance").

**PURPOSE . . .** Proceeds from the sale of the Bonds will be used (i) to refund a portion of the City's outstanding obligations described on Schedule I attached hereto (the "Refunded Obligations") to achieve debt service savings, and (ii) to pay the costs of issuance associated with the sale of the Bonds (see "Plan of Financing").

**MATURITY SCHEDULE**

See page 2

**SEPARATE ISSUES . . .** The Bonds are being offered by the City concurrently with the "City of Keller, Texas, Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2017" (the "Certificates"), under a common Preliminary Official Statement, and such Bonds and Certificates are hereinafter sometimes referred to collectively as the "Obligations". The Bonds and Certificates are separate and distinct securities offerings being issued and sold independently except for the common Preliminary Official Statement, and while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations and other features.

**LEGALITY . . .** The Bonds are offered for delivery when, as and if issued and received by the Underwriters of the Bonds and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see Appendix C, "Forms of Bond Counsel's Opinions"). Certain legal matters will be passed upon for the Underwriters by Norton Rose Fulbright US LLP Dallas, Texas, Counsel for the Underwriters.

**DELIVERY . . .** It is expected that the Bonds will be available for delivery through DTC on August 17, 2017.

**BAIRD**

**RAYMOND JAMES**

\* Preliminary, subject to change.

**MATURITY SCHEDULE\***

**CUSIP Prefix <sup>(1)</sup>: 487684**

<u>Principal Amount</u>	<u>February 15 Maturity</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix <sup>(1)</sup></u>	<u>Principal Amount</u>	<u>February 15 Maturity</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix <sup>(1)</sup></u>
\$ 5,000	2018				\$ 710,000	2024			
5,000	2019				740,000	2025			
595,000	2020				770,000	2026			
620,000	2021				810,000	2027			
645,000	2022				840,000	2028			
675,000	2023				875,000	2029			

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**REDEMPTION . . .** The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2028, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE OBLIGATIONS – Optional Redemption").

\* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. The securities referenced herein may not be sold nor may offers to buy be accepted prior to the time the Preliminary Official Statement is delivered in final form. Under no circumstances shall the Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

(See "Continuing Disclosure of Information" herein)

Dated July 7, 2017

**NEW ISSUE - Book-Entry-Only**

In the opinion of Bond Counsel, interest on the Certificates will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations.

THE CERTIFICATES WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.



**\$9,455,000\***  
**CITY OF KELLER, TEXAS**  
**(Tarrant County)**  
**COMBINATION TAX AND LIMITED SURPLUS REVENUE**  
**CERTIFICATES OF OBLIGATION, SERIES 2017**

**Dated Date: July 15, 2017**  
**Interest Accrues from Delivery Date**

**Due: February 15, as shown on page 4**

**PAYMENT TERMS . . .** Interest on the \$9,455,000\* City of Keller, Texas Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2017 (the "Certificates") will accrue from the delivery date (the "Delivery Date"), will be payable February 15 and August 15 of each year until maturity or prior redemption, commencing February 15, 2018, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates 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 Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Certificates will be made to the owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "THE OBLIGATIONS - 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 OBLIGATIONS - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE . . .** The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, Subchapter B of Chapter 1502, Texas Government Code, as amended, and an ordinance to be adopted by the City Council (the "Certificate Ordinance") and constitute direct obligations of the City of Keller, Texas (the "City"), payable from an annual ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, and from a limited pledge (not to exceed \$1,000) of the surplus net revenues of the City's waterworks and sewer system as provided in the Certificate Ordinance. (see "THE OBLIGATIONS - Authority for Issuance").

**PURPOSE . . .** Proceeds from the sale of the Certificates will be used for (i) additions, extensions and improvements to the City's water and sewer system, (ii) constructing, reconstructing and improving streets, roads, alleys and sidewalks; (iii) renovations, improvements and additions to existing fire stations; and (iv) paying legal, fiscal, engineering and architectural fees in connection with these projects.

**MATURITY SCHEDULE**

**See page 4**

**SEPARATE ISSUES . . .** The Certificates are being offered by the City concurrently with the "City of Keller, Texas, General Obligation Refunding Bonds, Series 2017" (the "Bonds"), and such Certificates and Bonds are hereinafter sometimes referred to collectively as the "Obligations". The Certificates and Bonds are separate and distinct securities offerings being issued and sold independently except for the common Preliminary Official Statement, and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations, and other features.

**LEGALITY . . .** The Certificates are offered for delivery when, as and if issued and received by the Underwriters of the Certificates and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see Appendix C, "Forms of Bond Counsel's Opinions"). Certain legal matters will be passed upon for the Underwriters by Norton Rose Fulbright US LLP Dallas, Texas, Counsel for the Underwriters.

**DELIVERY . . .** It is expected that the Certificates will be available for delivery through DTC on August 17, 2017.

**BAIRD**

**RAYMOND JAMES**

\* Preliminary, subject to change.

MATURITY SCHEDULE\*

CUSIP Prefix <sup>(1)</sup>: 487684

Principal Amount	February 15 Maturity	Interest Rate	Initial Yield	CUSIP Suffix <sup>(1)</sup>	Principal Amount	February 15 Maturity	Interest Rate	Initial Yield	CUSIP Suffix <sup>(1)</sup>
\$ 770,000	2018				\$ 230,000	2028			
795,000	2019				240,000	2029			
690,000	2020				250,000	2030			
900,000	2021				260,000	2031			
930,000	2022				270,000	2032			
955,000	2023				280,000	2033			
985,000	2024				295,000	2034			
210,000	2025				305,000	2035			
220,000	2026				315,000	2036			
225,000	2027				330,000	2037			

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services ("CGS"), managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the City, the Financial Advisor or the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

**REDEMPTION . . .** The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2028, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE OBLIGATIONS – Optional Redemption").

\* Preliminary, subject to change.

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), this document constitutes an Official Statement of the City with respect to the Obligations that has been "deemed final" by the City as of its date except for the omission of no more than the information permitted by the Rule.

This Official Statement, which includes the cover pages and the Schedule and 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 a representation, promise or guarantee of the Financial Advisor or the Underwriters.

This Official Statement includes descriptions and summaries of certain events, matters and documents. Such descriptions and summaries do not purport to be complete and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the Financial Advisor. Any statements made in this Official Statement or the appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

The Underwriters have reviewed the information in this Official Statement pursuant to their respective responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

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.

NONE OF THE CITY, ITS FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY ONLY SYSTEM.

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

THE OBLIGATIONS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE OBLIGATIONS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE OBLIGATIONS HAVE BEEN REGISTERED OR QUALIFIED, IF ANY, AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES, IF ANY, CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. THE OBLIGATIONS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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

**PRELIMINARY OFFICIAL STATEMENT SUMMARY**

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

**THE CITY**..... The City of Keller, Texas (the "City"), is a political subdivision and home rule municipal corporation of the State, located in Tarrant County, Texas. The City covers approximately 18.17 square miles (see "INTRODUCTION - Description of the City").

**THE BONDS**..... The \$7,290,000\* General Obligation Refunding Bonds, Series 2017 are to mature on February 15 in the years 2018 through 2029 (see "THE OBLIGATIONS - Description of The Obligations").

**THE CERTIFICATES** ..... The \$9,455,000\* Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2017 are to mature on February 15 in the years 2018 through 2037 (see "THE OBLIGATIONS - Description of the Obligations").

**PAYMENT OF INTEREST** ..... Interest on the Obligations accrues from the Delivery Date, and is payable February 15, 2018, and each August 15 and February 15 thereafter until maturity or prior redemption (see "THE OBLIGATIONS - Description of the Obligations" and "THE OBLIGATIONS - Optional Redemption").

**AUTHORITY FOR ISSUANCE**..... The Bonds are issued pursuant to the general laws of the State, including particularly V.T.C.A., Texas Government Code, Chapter 1207, and the Bond Ordinance to be adopted by the City Council of the City (see "THE OBLIGATIONS - Authority for Issuance").

The Certificates are issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, V.T.C.A. Local Government Code (the Certificate of Obligation Act of 1971), as amended, Subchapter B of Chapter 1502, Texas Government Code, as amended, and the Certificate Ordinance to be adopted by the City Council of the City (see "THE OBLIGATIONS - Authority for Issuance").

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

**SECURITY FOR THE CERTIFICATES** ..... The Certificates constitute direct obligations of the City, payable from a combination of (i) an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge (not to exceed \$1,000) of surplus net revenues of the City's waterworks and sewer system as provided in the Certificate Ordinance (see "THE OBLIGATIONS - Security and Source of Payment").

**REDEMPTION**..... The City reserves the right, at its option, to redeem the Obligations having stated maturities on and after February 15, 2028, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE OBLIGATIONS - Optional Redemption").

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

\* Preliminary, subject to change.

**USE OF PROCEEDS** ..... Proceeds from the sale of the Bonds will be used (i) to refund a portion of the City's outstanding obligations described on Schedule I attached hereto (the "Refunded Obligations") to achieve debt service savings, and (ii) to pay the costs of issuance associated with the sale of the Bonds (see "Plan of Financing").

Proceeds from the sale of the Certificates will be used for (i) additions, extensions and improvements to the City's water and sewer system, (ii) constructing, reconstructing and improving streets, roads, alleys and sidewalks; (iii) renovations, improvements and additions to existing fire stations; and (iv) paying legal, fiscal, engineering and architectural fees in connection with these projects.

**RATINGS** ..... The Obligations and the presently outstanding tax supported debt of the City are rated "Aa1" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by S&P Global Ratings, a division of S&P Global Inc. ("S&P") (see "OTHER INFORMATION – Ratings").

**BOOK-ENTRY-ONLY SYSTEM**..... The definitive Obligations 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 Obligations may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Obligations will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Obligations 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 Obligations (see "THE OBLIGATIONS - Book-Entry-Only System").

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

**SELECTED FINANCIAL INFORMATION**

Fiscal Year Ended 9/30	Estimated City Population	Taxable Assessed Valuation <sup>(3)</sup>	Per Capita Taxable Assessed Valuation	Net Tax Supported Debt Outstanding at End of Year <sup>(4)</sup>	Per Capita Funded Tax Debt	Ratio Funded Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
2013	41,090 <sup>(1)</sup>	\$ 4,110,657,993	\$ 100,040	\$ 42,436,000	\$ 1,033	1.03%	99.81%
2014	42,040 <sup>(1)</sup>	4,264,485,274	101,439	38,878,000	925	0.91%	99.57%
2015	42,890 <sup>(1)</sup>	4,535,245,263	105,741	35,254,000	822	0.78%	99.49%
2016	44,050 <sup>(1)</sup>	5,166,563,735	117,289	31,734,000	720	0.61%	100.28%
2017	44,050 <sup>(2)</sup>	5,368,009,043	121,862	32,125,353 <sup>(5)</sup>	729	0.60%	96.14% <sup>(6)</sup>

- (1) Source: North Central Texas Council of Governments.
- (2) Estimate provide by City officials.
- (3) Taxable assessed values, with the exception of fiscal year ending 2014 and 2015, are as reported in the City's comprehensive annual financial report. The fiscal year ending 2014 and 2015 taxable assessed value is as reported by the 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.
- (4) Excludes self-supporting debt. See Tables 1 and 10 herein for more detailed information on the City's general obligation self-supporting debt. The City's policy to pay such self-supporting general obligation debt from other revenues is subject to change in the future. In the event the City changes it 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.
- (5) Projected, includes the Obligations and excludes the Refunded Obligations and a portion of the Certificates as self-supporting. Preliminary, subject to change.
- (6) Collections for part year only, through June 1, 2017.

**CITY OFFICIALS, STAFF, AND CONSULTANTS**

**ELECTED OFFICIALS**

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Pat McGrail Mayor	0 Months	May, 2020	Retired Executive
Debbie Bryan Councilmember, Place 1	4 Years	May, 2018	Homemaker
Armin Mizani Councilmember, Place 2	3 Years	May, 2017	Lawyer
Ed Speakmon Councilmember, Place 3	1 Year	May, 2019	Retired
Eric Schmidt Councilmember, Place 4	1 Year	May, 2019	Retired Engineer
Chris Whatley Councilmember, Place 5	1 Month	May, 2019	Self-Employed
Tag Green Councilmember, Place 6	0 Months	May, 2020	Broker/Business Owner

**SELECTED ADMINISTRATIVE STAFF**

<u>Name</u>	<u>Position</u>	<u>Length of Service With City</u>
Mark Hafner	City Manager	16 Years
Aaron Rector	Director of Finance	1 Year
Kelly Ballard	City Secretary	4 Years

**CONSULTANTS AND ADVISORS**

Auditors..... Weaver and Tidwell, LLP  
Fort Worth, Texas

Bond Counsel..... McCall, Parkhurst & Horton L.L.P.  
Dallas, Texas

Financial Advisors..... FirstSouthwest  
a Division of Hilltop Securities Inc.  
Fort Worth, Texas

For additional information regarding the City, please contact:

Mark Hafner City Manager City of Keller P.O. Box 770 Keller, Texas 76244 (817) 743-4007	or	David K. Medanich Nick Bulaich FirstSouthwest, a Division of Hilltop Securities Inc. 777 Main Street, Suite 1200 Fort Worth, Texas 76102 (817) 332-9710
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## PRELIMINARY OFFICIAL STATEMENT

### RELATING TO

\$7,290,000\*  
GENERAL OBLIGATION REFUNDING BONDS,  
SERIES 2017

\$9,455,000\*  
COMBINATION TAX AND LIMITED SURPLUS REVENUE  
CERTIFICATES OF OBLIGATION, SERIES 2017

### INTRODUCTION

This Preliminary Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of \$7,290,000\* City of Keller, Texas, General Obligation Refunding Bonds, Series 2017, (the "Bonds") and \$9,455,000\* City of Keller, Texas, Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2017 (the "Certificates"). The Bonds and the Certificates (collectively the "Obligations") are separate and distinct securities offerings being authorized for issuance under separate ordinances (the "Bond Ordinance" and the "Certificate Ordinance", respectively, each as defined below under "The Obligations – Authority for Issuance", and collectively the "Ordinances"), adopted by the City Council of the City, but are being offered and sold pursuant to a common Official Statement, and while the Bonds and Certificates share certain common attributes, each issue is separate and apart from the other and should be reviewed and analyzed independently, including the kind and type of obligation being issued, its terms of payment, the security for its payment, the rights of the holders, the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations and the covenants and agreements made with respect thereto. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in each respective Ordinance, except as otherwise indicated herein.

There follow in this Official Statement descriptions of the Obligations 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, FirstSouthwest, a Division of Hilltop Securities Inc. ("FirstSouthwest"), Fort Worth, Texas.

**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 first adopted its Home Rule Charter in 1982. The City operates under the Council/Manager form of government with a City Council comprised of the Mayor and five Councilmembers. The term of office is two years with the terms of the Mayor and two of the Councilmembers' terms expiring in odd-numbered years and the terms of the other three Councilmembers expiring in even-numbered years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police, fire protection and emergency medical services), street maintenance, water, sanitary sewer and drainage utilities, library services, parks and recreation, community development (planning and zoning), and general administrative services. The 2010 Census population for the City was 39,627, while the estimated 2017 population is 44,050. The City covers approximately 18.17 square miles.

### PLAN OF FINANCING

**PURPOSE . . .** Proceeds from the sale of the Bonds will be used (i) to refund a portion of the City's outstanding obligations described on Schedule I attached hereto (the "Refunded Obligations") to achieve debt service savings and (ii) to pay the costs of issuance associated with the sale of the Bonds (see "Plan of Financing").

Proceeds from the sale of the Certificates will be used for (i) additions, extensions and improvements to the City's water and sewer system, (ii) constructing, reconstructing and improving streets, roads, alleys and sidewalks; (iii) renovations, improvements and additions to existing fire stations; and (iv) paying legal, fiscal, engineering and architectural fees in connection with these projects.

**REFUNDED OBLIGATIONS . . .** Proceeds from the sale of the Bonds will be used in part to refund the Refunded Obligations. The principal and interest due on the Refunded Obligations are to be paid on the scheduled interest payment dates and redemption dates of such Refunded Obligations as shown in Schedule I, from funds to be deposited pursuant to an escrow agreement with respect to the Bonds (the "Escrow Agreement") between the City and The Bank of New York Mellon Trust Company N.A. (the "Escrow Agent"). The Bond Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriters, together with other funds of the City, if necessary, the City will deposit with the Escrow Agent an amount which, together with the Escrowed Securities (defined below) purchased with a portion of the Bond proceeds and the interest to be earned on such Escrowed Securities, will be sufficient to accomplish the discharge and final payment of the Refunded Obligations on their respective redemption dates. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct noncallable obligations of the United States of America or noncallable obligations of an agency or instrumentality of the United States of America that are that are guaranteed or insured the United States of America, or a combination thereof (the "Escrowed Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations.

\* Preliminary, subject to change

Grant Thornton LLP, certified public accountants, a nationally recognized accounting firm, will issue its report (the "Report") verifying at the time of delivery of the Bonds to the Underwriters thereof the mathematical accuracy of the schedules that demonstrate the Escrowed Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations. Such maturing principal of and interest on the Escrowed Securities will not be available to pay the Obligations (see "Other Information – Verification of Arithmetical and Mathematical Computations").

By deposit of the Escrowed Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of all the Refunded Obligations in accordance with State law and in reliance upon the Report. As a result of such defeasance, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Escrowed Securities and any cash held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the City payable from taxes or other revenues received by the City, as the case may be, or for the purpose of applying any limitation on the issuance of debt, and the City will have no further responsibility with respect to amounts available in the Escrow Fund for the payment of the Refunded Obligations from time to time, including any insufficiency therein caused by the failure of the Escrow Agent to receive payment when due on the Escrowed Securities.

**SOURCES AND USES OF PROCEEDS . . .** The proceeds from the sale of the Obligations will be applied as follows:

	The Bonds	The Certificates
<u>Sources of Funds</u>		
Par Amount	\$ -	\$ -
Original Issue Premium	-	-
Total Sources of Funds	\$ -	\$ -
<u>Uses of Funds</u>		
Deposit to Construction Fund	\$ -	-
Cost of Issuance <sup>(1)</sup>	-	-
Total Uses of Funds	\$ -	\$ -

(1) Including Underwriters' Discount.

#### THE OBLIGATIONS

**DESCRIPTION OF THE OBLIGATIONS . . .** The Obligations are dated July 15, 2017 (the "Dated Date"), and mature on February 15 in each of the years and in the amounts shown on pages 2 and page 4 hereof. Interest will accrue from the Delivery Date, 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, 2018, and until maturity or prior redemption. The definitive Obligations will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein.

**No physical delivery of the Obligations will be made to the owners thereof.** Principal of, premium, if any, and interest on the Obligations 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 Obligations. See "Book-Entry-Only System" herein.

Interest on the Obligations shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States Mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Obligations will be paid to the registered owner at their stated maturity or upon earlier redemption upon presentation to designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Obligations, all payments will be made as described under "The Obligations - Book-Entry-Only System" herein. If the date for any payment on the Obligations shall be a Saturday, a Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

**AUTHORITY FOR ISSUANCE . . .** The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly V.T.C.A., Texas Government Code, Chapter 1207, and the Bond Ordinance passed by the City Council of the City.

The Certificates are being issued pursuant to the Constitution and general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Subchapter B of Chapter 1502, Texas Government Code, as amended, and the Certificate Ordinance.

## SECURITY AND SOURCE OF PAYMENT

*The Bonds . . .* The principal of and interest on the Bonds is payable from a direct and continuing ad valorem tax levied by the City within the limits prescribed by law upon all taxable property in the City as provided in the Bond Ordinance.

*The Certificates . . .* The principal of and interest on the Certificates is payable from a direct and continuing ad valorem tax levied by the City, within the limits prescribed by law, upon all taxable property in the City. Additionally, the Certificates are payable from a limited pledge (not to exceed \$1,000) of the surplus revenues of the City's waterworks and sewer system, remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with all of the City's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the City's waterworks and sewer system as provided in the Certificate Ordinance.

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

**OPTIONAL REDEMPTION . . .** The City reserves the right, at its option, to redeem Obligations having stated maturities on and after February 15, 2028, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Obligations are to be redeemed, the City may select the maturities of Obligations to be redeemed. If less than all the Obligations of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Obligations are in Book-Entry-Only form) shall determine by lot the Obligations, or portions thereof, within such maturity to be redeemed. If an Obligation (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Obligation (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.

With respect to any optional redemption of the Obligations, unless certain prerequisites to such redemption required by the applicable Ordinance have been met and money sufficient to pay the principal of and premium, if any, and interest on the Obligations to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the City, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the City will not redeem such Obligations, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that such Obligations have not been redeemed.

**NOTICE OF REDEMPTION . . .** Not less than 30 days prior to a redemption date for the Obligations, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Obligations to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. If an Obligation (or any portion of its principal sum) shall have been duly called for redemption and any other condition to redemption satisfied, then upon the redemption date such Obligation (or the portion of its principal sum to be redeemed) shall become due and payable, and, if moneys for the payment of the redemption price and the interest accrued on the principal amount to be redeemed to the date of redemption are held for the purpose of such payment by the Paying Agent/Registrar, interest shall cease to accrue and be payable from and after the redemption date on the principal amount redeemed.

**DEFEASANCE . . .** The Ordinances provide for the defeasance of the Obligations when the payment of the principal of and premium, if any, on the Obligations, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent or other authorized entity, in trust (1) money sufficient to make such payment or (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Obligations being defeased, and thereafter, the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Obligations, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Ordinances provide that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Obligations. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the

United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

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

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

**BOOK-ENTRY-ONLY SYSTEM . . .** *This section describes how ownership of the Obligations is to be transferred and how the principal of, premium, if any, and interest on the Obligations are to be paid to and accredited by DTC while the Obligations 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 and the Underwriters consider the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

*The City and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Obligations, 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 Obligations), 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, New York, New York, will act as securities depository for the Obligations. The Obligations will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate for each maturity will be issued for the Obligations in the aggregate principal amount thereof and will be deposited with DTC.

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

Purchases of Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Obligations on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owners entered into the transaction. Transfers of

ownership interest in the Obligations are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Obligations, except in the event that use of the book-entry system for the Obligations is discontinued.

To facilitate subsequent transfers, all Obligations 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 Obligations 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 Obligations; DTC's records reflect only the identity of the Direct Participant to whose account such Obligations are credited, which may or may not be a Beneficial Owner. The 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.

Redemption notices shall be sent to DTC. If less than all of the Obligations 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. will consent or vote with respect to the Obligations unless authorized by a Direct Participant in accordance with DTC's MMI 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 the Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Obligations 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 Obligations 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 Obligations, 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 Ordinances 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 Advisors or the Underwriters of the Obligations.

**Effect of Termination of Book-Entry-Only System.** In the event the Book-Entry-Only System with respect to the Obligations is discontinued by DTC, or the use of the Book-Entry-Only System with respect to the Obligations is discontinued by the City, printed securities certificates will be issued to the holders of the affected Obligations, and the applicable Obligations will be subject to transfer, exchange, and registration provisions as set forth in the Ordinances, summarized under "The Obligations - 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 Ordinances, 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 Obligations are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Obligations. Upon any change in the Paying Agent/Registrar for the Obligations, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Obligations 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.

Interest on the Obligations shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States mail, first class postage prepaid, to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Obligations will be paid to the registered owner at their stated maturity or earlier redemption upon presentation to designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Obligations shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

**TRANSFER, EXCHANGE AND REGISTRATION . . .** In the event the Book-Entry-Only System should be discontinued, the Obligations may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Obligations may be assigned by the execution of an assignment form on the Obligations or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Obligations will be delivered by the Paying Agent/Registrar, in lieu of the Obligations 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 Obligations issued in an exchange or transfer of Obligations 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 Obligations 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 Obligations registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Obligations surrendered for exchange or transfer. See "The Obligations - Book-Entry-Only System" above for a description of the system to be utilized initially in regard to ownership and transferability of the Obligations. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Obligation (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Obligation called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the Registered Owner of the uncalled balance of an Obligation.

**RECORD DATE FOR INTEREST PAYMENT . . .** The record date ("Record Date") for the interest payable on the Obligations on any interest payment date means 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 ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of an Obligation to be paid on the Special Payment Date that appears 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 Ordinances establish specific events of default with respect to the Obligations. If the City defaults in the payment of the principal of or interest on any of the Obligations 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 of the Obligations, including but not limited to, their prospect or ability to be repaid in accordance with the respective Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, each of the Ordinances provide that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Obligations or the applicable Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so it rests with the discretion of the court, but it may not be arbitrarily refused. There is no acceleration of maturity of any of the Obligations in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinances do not provide for the appointment of a trustee to represent the interest of the holders of the Obligations upon any failure of the City to perform in accordance with the terms of the respective Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, \_\_\_ S.W. 3d \_\_\_ (Tex. 2016) that sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. If sovereign immunity is determined by a court to exist, then the Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous language." Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Obligations may not be able to bring such a suit against the City for breach of the covenants in the Obligations or in the Ordinances. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Obligations.

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors, including holders of the Obligations, 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 Obligations are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

Initially, the only registered owner of the Obligations will be Cede & Co., the nominee of DTC. See "The Obligations - Book-Entry-Only System" above for a description of the duties of DTC with regard to ownership of the Obligations.

#### TAX INFORMATION

**AD VALOREM TAX LAW . . .** The appraisal of property within the City is the responsibility of the Tarrant 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 the Texas 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 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 that would not 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 in the preceding tax year, plus (b) the property's appraised value in the preceding tax 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 V.T.C.A., Property Tax Code, (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 freeze the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older to the amount of taxes imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, the total amount of taxes imposed on such homestead cannot be increased except for improvements (excluding repairs or improvements required to comply with governmental requirements) and such freeze 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, the tax rate limitation may not 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. In addition, effective January 1, 2012, and subject to certain conditions, surviving spouses of a deceased veteran who had received a disability rating of 100% will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

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 districts, 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.

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

A city may utilize tax increment financing ("TIF"), pursuant to the Tax Increment Financing Act, Texas Tax Code, Chapter 311, to encourage development and redevelopment within a designated reinvestment zone. Taxes collected from increases in valuation above the base value (the "captured appraised value") by each taxing unit that levies ad valorem taxes on real property in the reinvestment zone may be used to pay costs of infrastructure or other public improvements in the reinvestment zone and to supplement or act as a catalyst for private development in the defined area of the reinvestment zone. The tax increment base value for a taxing unit is the total appraised value of all real property taxable by the taxing unit and located in the reinvestment zone as of January 1 of the year in which the city created the reinvestment zone. Each taxing unit can choose to dedicate all, any portion or none of its taxes collected from the captured appraised value to the costs of improvements in the reinvestment zone. The amount of a taxing unit's tax increment for a year is the amount of property taxes levied by the taxing unit for that year on the captured appraised value of real property taxable by the taxing unit and located in the reinvestment zone, multiplied by the taxing unit's percentage level of participation.

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

The City is authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes, however no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City. The City may contract with the federal government, the State, another political subdivision, a nonprofit organization or any other entity, including private entities, for the administration of such a program.

**EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . .** Section 26.05 of the Property Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60<sup>th</sup> day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit 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 taxing unit for the preceding tax year. Furthermore, Section 26.05 provides 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 September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

**PENALTIES AND INTEREST . . .** Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

<u>Month</u>	<u>Cumulative Penalty</u>	<u>Cumulative Interest</u>	<u>Total</u>
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 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 \$40,000.

The City grants an exemption of \$10,000 to the market value of the residence homestead of disabled persons.

The City has historically granted an additional exemption of 4% of the market value of residence homesteads; minimum exemption of \$5,000. On June 20, 2017, the City Council increased the additional exemption to 8% of the market value of residence homesteads, effective for the 2017/18 fiscal year.

On August 3, 2004, the City Council adopted a resolution to implement the tax freeze for the residence homestead of the disabled and persons sixty-five years of age or older, and their spouses. The freeze was effective with the January 1, 2004 tax roll and the tax levied for the 2005/06 fiscal year.

See Table 1 for a listing of the amounts of the exemptions described above.

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 Tarrant County Tax Assessor/Collector collects taxes for the City.

The City does allow split payments, but discounts are not allowed.

The City has taken action to tax freeport property.

The City does not collect the additional one-half cent sales tax for reduction of ad valorem taxes.

The City does tax goods in transit.

The City has created a tax increment financing zone (the "Zone"). The City's tax increment base value for the Zone was \$10,996,633 and the captured appraised value of property in the Zone for tax year 2016 is \$205,351,546. The City contributes 100% of its tax receipts on the captured appraised value to the tax increment fund which may be used for project costs of the Zone or debt service on obligations issued for project costs of the Zone.

The City has adopted a tax abatement policy but has not entered into any tax abatement agreements. Under the policy, a project may qualify for an abatement if it is expected to result in an increase in the appraised value of the property and is expected to prevent the loss of or retain employment or create new employment. Abatements may be granted up to 50% of the additional value generated by the project for a maximum of ten years, with the amount of abatement depending on expected capital investment by the applicant and the number of jobs to be created and applied on a declining scale after the first year.

**CHAPTER 380 AGREEMENTS . . .** The City has three Chapter 380 Agreements with property tax rebates. One agreement relates to current and future rolls which includes grants from legally available funds equal to 100% of the property taxes received by the City in excess of the base value that are attributed to the completed improvements. This grant became effective with the tax year which began on January 1, 2015 for a term of four years. Two agreements will begin with completion of certain construction milestones such as receipt of certificate of occupation. The first agreement relates to future rolls which includes grants from legally available funds equal to 100% of the property taxes received by the City the first two years, 75% the third year, and 50% the fourth year and is anticipated to begin with tax year 2018. The second agreement relates to future rolls which includes grants from legally available funds equal to 50% of the property taxes received by the City the first year, 40% the second year, and 30% the third year and is anticipated to begin with tax year 2018.

**TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT**

2016/17 Market Valuation Established by Tarrant Appraisal District (includes incomplete and arb values, excludes totally exempt property)		\$ 5,292,090,382
Less Exemptions/Reductions at 100% Market Value:		
Residence Homestead Exemptions	\$ 152,895,998	
Over 65 Years of Age/Disabled	95,511,177	
Disabled Veterans Exemptions	18,691,576	
Pollution	257,134	
Lost to Prorated Absolute Exemptions	<u>                    -</u>	267,355,885
Plus Minimum Value of Protests		<u>343,274,546</u>
2016/17 Taxable Assessed Valuation		\$ 5,368,009,043
2016/17 Incremental Taxable Assessed Value of Real Property within Reinvestment Zone		<u>205,321,546</u>
2016/17 Taxable Assessed Valuation available for General Fund Obligations and Debt to City		<u>\$ 5,162,687,497</u>
City Funded Debt Payable from Ad Valorem Taxes (as of 6-1-17)		
General Obligation Bonds	\$ 31,425,000 <sup>(1)</sup>	
Tax and System Debt	27,960,000 <sup>(1)</sup>	
Public Property Finance Contractual Obligation	179,000	
The Certificates	9,455,000 <sup>(2)</sup>	
The Bonds	<u>7,290,000 <sup>(2)</sup></u>	
Funded Debt Payable from Ad Valorem Taxes		\$ 76,309,000
Less Self-Supporting Debt: <sup>(3)</sup>		
Tax Increment Reinvestment Zone General Obligation Debt	\$ 5,185,000	
Crime Control District	4,400,000	
Development Corporation General Obligation Debt	10,725,000	
Water and Sewer System General Obligation Debt	<u>23,873,647 <sup>(2)(4)</sup></u>	<u>44,183,647</u>
Net Funded Debt Payable from Ad Valorem Taxes		\$ 32,125,353
Interest and Sinking Fund as of 5-31-17		\$ 2,527,541 <sup>(5)</sup>
Ratio Total Funded Debt to Taxable Assessed Valuation .....		1.42%
Ratio Net Funded Debt to Taxable Assessed Valuation .....		0.60%
2017 Estimated Population - 44,050 Per Capita Taxable Assessed Valuation - \$121,862 Per Capita Total Funded Debt - \$1,732 Per Capita Net Funded Debt - \$729		

- (1) Excludes the Refunded Obligations. Preliminary, subject to change.
- (2) Preliminary, subject to change.
- (3) 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 respective system revenues; 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 to pay such debt service.
- (4) Includes a portion of the Certificates. Preliminary, subject to change.
- (5) Includes August Interest Expense.

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

Fiscal Year Ended 9/30	Estimated Population	Taxable Assessed Valuation <sup>(3)</sup>	Taxable Assessed Valuation Per Capita	Net Tax Supported Debt Outstanding at End of Year <sup>(4)</sup>	Ratio of Tax Supported Debt to Taxable Assessed Valuation	Tax Supported Debt Per Capita
2013	41,090 <sup>(1)</sup>	\$ 4,110,657,993	\$ 100,040	\$ 42,436,000	1.03%	\$ 1,033
2014	42,040 <sup>(1)</sup>	4,264,485,274	101,439	38,878,000	0.91%	925
2015	42,890 <sup>(1)</sup>	4,535,245,263	105,741	35,254,000	0.78%	822
2016	44,050 <sup>(1)</sup>	5,166,563,735	117,289	31,734,000	0.61%	720
2017	44,050 <sup>(2)</sup>	5,368,009,043	121,862	32,125,353 <sup>(5)</sup>	0.60%	729

- (1) Source: North Central Texas Council of Governments.
- (2) Estimate provide by City officials.
- (3) Taxable assessed values, with the exception of fiscal year ending 2014 and 2015, are as reported in the City's comprehensive annual financial report. The fiscal year ending 2014 and 2015 taxable assessed value is as reported by the 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.
- (4) Excludes self-supporting debt. See Tables 1 and 10 herein for more detailed information on the City's general obligation self-supporting debt. The City's policy to pay such self-supporting general obligation debt from other revenues is subject to change in the future. In the event the City changes it 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.
- (5) Projected, includes the Obligations and excludes the Refunded Obligations and a portion of the Certificates. Preliminary, subject to change.

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

Fiscal Year Ended 9/30	Tax Rate	Distribution			% Current Collections	% Total Collections
		General Fund	Interest and Sinking Fund	Tax Levy		
2013	\$ 0.442190	\$ 0.325520	\$ 0.116670	\$ 18,017,578	99.56%	99.81%
2014	0.442190	0.326460	0.115730	18,675,325	99.57%	99.57%
2015	0.437190	0.330480	0.106710	19,605,135	99.49%	99.49%
2016	0.434690	0.336380	0.098310	20,447,244	99.54%	100.28%
2017	0.430000	0.313580	0.116420	22,268,413	96.14% <sup>(1)</sup>	96.14% <sup>(1)</sup>

- (1) Collections for part year only, through June 1, 2017.

**TABLE 5 - TEN LARGEST TAXPAYERS**

Name of Taxpayer	Nature of Property	2016/17 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
SC Dominion Spe LLC	Multi-Family Development/Town Center	\$ 41,760,000	0.78%
SC Waterford Glen LP	Multi-Family Development/Town Center	30,766,000	0.57%
T Arthouse Tx LLC	Mixed-Use Development/Town Center	30,000,000	0.56%
SC Stone Glen LP	Multi-Family Development/Town Center	24,950,000	0.46%
Conservatory Senior Housing	Senior Housing Development	21,615,400	0.40%
Grand Estates at Keller LP	Multi-Family Development	20,920,000	0.39%
Bear Creek Plaza Ltd.	Retail Shopping Center	17,980,436	0.33%
Regency Centers LP	Retail Shopping Center/Town Center	15,874,213	0.30%
St. Elizabeth Ann Seton Catholic	Church	14,471,247	0.27%
Lowe's Home Centers Inc.	Retail Store	12,070,467	0.22%
		<u>\$ 230,407,763</u>	<u>4.29%</u>

**TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY <sup>(1)(2)</sup>**

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2017		2016		2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 4,512,174,518	85.26%	\$ 4,072,168,540	83.08%	\$ 3,893,817,062	82.11%
Real, Residential, Multi-Family	174,733,862	3.30%	160,892,289	3.28%	127,325,634	2.68%
Real, Vacant Lots/Tracts	73,647,068	1.39%	64,836,054	1.32%	102,551,601	2.16%
Real, Acreage (Land Only)	254,621	0.00%	795,404	0.02%	18,097,039	0.38%
Real, Farm and Ranch Improvements	14,769,700	0.28%	143,201	0.00%	-	0.00%
Real, Commercial and Industrial	417,163,588	7.88%	408,398,080	8.33%	413,767,532	8.73%
Real, Oil, Gas and Mineral Reserve	279,050	0.01%	977,260	0.02%	1,198,010	0.03%
Real and Tangible Personal, Utilities	24,257,516	0.46%	52,604,219	1.07%	54,672,235	1.15%
Tangible Personal, Commercial	57,791,877	1.09%	86,064,502	1.76%	87,162,473	1.84%
Tangible Personal, Industrial	1,703,538	0.03%	1,683,183	0.03%	1,854,021	0.04%
Tangible Personal, Mobile Homes	27,172	0.00%	61,500	0.00%	61,500	0.00%
Real Property, Inventory	15,287,872	0.29%	52,912,914	1.08%	41,770,970	0.88%
Totally Exempt Property	-	0.00%	-	0.00%	-	0.00%
Total Appraised Value Before Exemptions	\$ 5,292,090,382	100.00%	\$ 4,901,537,146	100.00%	\$ 4,742,278,077	100.00%
Adjustments	-		383,354,036		(17,666,989)	
Plus: Minimum Value of Protests	343,274,546		45,193,798		17,667,289	
Less: Total Exemption/Reductions	(267,355,885)		(163,521,245)		(207,033,114)	
Taxable Assessed Value	<u>\$ 5,368,009,043</u>		<u>\$ 5,166,563,735</u>		<u>\$ 4,535,245,263</u>	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2014		2013	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 3,639,713,271	82.44%	\$ 3,516,299,110	81.84%
Real, Residential, Multi-Family	121,014,360	2.74%	110,559,927	2.57%
Real, Vacant Lots/Tracts	88,299,276	2.00%	91,824,020	2.14%
Real, Acreage (Land Only)	36,172,140	0.82%	38,254,748	0.89%
Real, Farm and Ranch Improvements	-	0.00%	437,900	0.01%
Real, Commercial and Industrial	352,904,117	7.99%	356,250,561	8.29%
Real, Oil, Gas and Mineral Reserve	1,397,180	0.03%	2,469,300	0.06%
Real and Tangible Personal, Utilities	50,679,093	1.15%	50,705,443	1.18%
Tangible Personal, Commercial	81,948,485	1.86%	80,048,318	1.86%
Tangible Personal, Industrial	2,202,684	0.05%	1,814,670	0.04%
Tangible Personal, Mobile Homes	69,700	0.00%	72,000	0.00%
Real Property, Inventory	40,426,833	0.92%	47,617,542	1.11%
Totally Exempt Property	-	0.00%	-	0.00%
Total Appraised Value Before Exemptions	\$ 4,414,827,139	100.00%	\$ 4,296,353,539	100.00%
Adjustments	(19,702,083)		(15,054,149)	
Plus: Minimum Value of Protests	59,442,153		15,965,528	
Less: Total Exemptions/Reductions	(190,081,935)		(186,606,925)	
Taxable Assessed Value	<u>\$ 4,264,485,274</u>		<u>\$ 4,110,657,993</u>	

- (1) Valuations shown are certified assessed values reported by the Tarrant Appraisal District to the State Comptroller of Public Accounts.
- (2) Includes the Incremental Taxable Assessed Value of real property within the Reinvestment Zone. Net taxable assessed values, with the exception of fiscal year ending 2014 and 2015, are as reported in the City's comprehensive annual financial report. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records. Includes incomplete values and values in arbitration.

**GENERAL OBLIGATION DEBT LIMITATION . . .** No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (however, see "The Obligations - Tax Rate Limitation").

**TABLE 6 - TAX ADEQUACY <sup>(1)</sup>**

2017 Net Debt Service Requirement <sup>(1)</sup>	\$ 3,920,433
\$0.0738 Tax Rate at 99.00% Collection Produces	\$ 3,921,975
 Net Maximum Debt Service Requirement, 2018 <sup>(1)</sup>	 \$ 4,471,678
\$0.0842 Tax Rate at 99.00% Collection Produces	\$ 4,474,665
 2017 Total Debt Service Requirement <sup>(2)</sup>	 \$ 11,596,858
\$0.2183 Tax Rate at 99.00% Collection Produces	\$ 11,601,180
 Gross Maximum Total Debt Service Requirement, 2018 <sup>(2)</sup>	 \$ 12,471,584
\$0.2347 Tax Rate at 99.00% Collection Produces	\$ 12,472,730

(1) Includes the Obligations. Excludes a portion of the Certificates and net of self-supporting debt and Refunded Obligations. Preliminary, subject to change.

(2) Includes self-supporting debt.

**TABLE 7 - ESTIMATED OVERLAPPING DEBT**

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax obligations ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional 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	2016/17 Taxable Assessed Value	2016/17 Tax Rate	Total Tax Supported Debt	Estimated % Applicable	City's Overlapping Tax Supported Debt As of 3/1/17	Authorized But Unissued Debt As Of 6-1-17
City of Keller	\$ 5,162,687,497	\$ 0.430000	\$ 32,125,353	100.00%	\$ 32,125,353 <sup>(1)</sup>	\$ -
Carroll Independent School District	7,408,797,867	1.390000	198,280,709	1.42%	2,815,586	208,000,000
Keller Independent School District	14,275,467,885	1.520000	728,705,387	35.59%	259,346,247	-
Northwest Independent School District	12,620,107,909	1.452500	823,129,556	0.17%	1,399,320	499,000,000
Tarrant County	155,454,553,874	0.254000	344,185,000	3.37%	11,599,035	30,600,000
Tarrant County Hospital District	143,387,710,471	0.227900	22,335,000	3.36%	750,456	-
 Total Direct and Overlapping Tax Supported Debt					 \$ 308,035,997	
 Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					 5.97%	
 Per Capita Overlapping Tax Supported Debt					 \$ 6,480.32	

(1) Includes the Obligations. Excludes a portion of the Certificates and net of self-supporting debt and Refunded Obligations. Preliminary, subject to change.

DEBT INFORMATION

TABLE 8 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 9/30	Outstanding Debt Service <sup>(1)</sup>		The Bonds <sup>(2)</sup>		The Certificates <sup>(3)</sup>		Total Debt Service Requirements	Less: TIRZ Requirements	Less: Development Corporation Requirements	Less: Crime Control Prevention District Requirements	Less: Water and Sewer System Requirements <sup>(4)</sup>	Total Net Debt Service Requirements	% of Principal Retired
	Principal	Interest	Principal	Interest	Principal	Interest							
2017	\$ 9,121,000	\$ 2,475,858	\$ -	\$ -	\$ -	\$ -	\$ 11,596,858	\$ 2,964,841	\$ 1,577,019	\$ 524,350	\$ 2,610,215	\$ 3,920,433	
2018	9,264,000	1,864,199	5,000	271,732	770,000	296,653	12,471,584	2,983,766	1,584,744	527,075	2,904,321	4,471,678	
2019	6,450,000	1,546,139	5,000	273,150	795,000	274,900	9,344,189	-	1,586,244	523,950	2,906,555	4,327,441	
2020	6,090,000	1,328,531	595,000	267,150	690,000	252,625	9,223,306	-	1,582,419	524,950	2,795,598	4,320,339	
2021	5,410,000	1,126,724	620,000	251,900	900,000	228,775	8,537,399	-	1,582,494	524,950	2,506,317	3,923,638	49.11%
2022	5,640,000	927,319	645,000	229,700	930,000	201,325	8,573,344	-	1,581,419	528,825	2,529,307	3,933,793	
2023	5,180,000	731,215	675,000	203,300	955,000	173,050	7,917,565	-	1,589,044	526,575	2,241,931	3,560,015	
2024	3,925,000	564,140	710,000	175,600	985,000	143,950	6,503,690	-	249,794	528,075	2,247,207	3,478,615	
2025	2,705,000	448,792	740,000	146,600	210,000	126,025	4,376,417	-	249,319	528,600	1,419,583	2,178,914	
2026	2,790,000	362,667	770,000	116,400	220,000	119,575	4,378,642	-	253,619	523,750	1,425,858	2,175,415	81.78%
2027	2,570,000	277,115	810,000	84,800	225,000	112,900	4,079,815	-	252,694	528,125	1,115,294	2,183,702	
2028	2,125,000	199,295	840,000	51,800	230,000	106,075	3,552,170	-	251,619	-	1,117,874	2,182,676	
2029	1,410,000	125,315	875,000	17,500	240,000	97,825	2,765,640	-	255,319	-	1,122,445	1,387,877	
2030	1,460,000	79,845	-	-	250,000	88,025	1,877,870	-	259,719	-	1,123,845	495,306	96.48%
2031	890,000	45,131	-	-	260,000	77,825	1,272,956	-	261,819	-	1,011,137	-	
2032	610,000	24,966	-	-	270,000	67,225	972,191	-	259,694	-	712,498	-	
2033	250,000	12,188	-	-	280,000	56,225	598,413	-	262,188	-	336,225	-	
2034	265,000	4,141	-	-	295,000	44,725	608,866	-	269,141	-	339,725	-	
2035	-	-	-	-	305,000	32,725	337,725	-	-	-	337,725	-	
2036	-	-	-	-	315,000	20,325	335,325	-	-	-	335,325	-	
2037	\$ 66,155,000	\$ 12,143,579	\$ 7,290,000	\$ 2,089,632	\$ 9,455,000	\$ 2,527,766	\$ 99,660,976	\$ 5,948,608	\$ 13,907,303	\$ 5,789,225	\$ 31,475,998	\$ 42,539,842	100.00%

(1) "Outstanding Debt" does not include lease/purchase obligations or the Refunded Obligations, includes self-supporting debt. Preliminary, subject to change.  
 (2) Average life of the issue - 7.343 years. Interest on the Bonds has been calculated at the rate of 2.43% for purposes of illustration. Preliminary, subject to change.  
 (3) Average life of the issue - 7.441 years. Interest on the Certificates has been calculated at the rate of 3.13% for purposes of illustration. Preliminary, subject to change.  
 (4) Includes a portion of the Certificates. Preliminary, subject to change.

**TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION**

Projected Tax Supported Debt Service Requirements, Fiscal Year Ending 9-30-17 .....		\$ 3,920,433
Budgeted Interest and Sinking Fund, 9-30-17 .....	\$ 615,268	
Budget Interest and Sinking Fund Tax Levy .....	4,556,420	
Estimated Investment Income .....	<u>7,500</u>	<u>5,179,188</u>
Estimated Balance, 9-30-17 .....		<u>\$ 1,258,755</u>

(1) Net of self-supporting debt.

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

Revenue Available for Debt Service from Waterworks and Sewer System, Fiscal Year Ended 9-30-16 .....	\$ 4,748,836
Less: Revenue Bonds Requirements, 2017 Fiscal Year .....	<u>-</u>
Balance Available for Other Purposes .....	\$ 4,748,836
System General Obligation Bond Requirements, 2017 Fiscal Year .....	<u>2,610,215</u>
Balance .....	<u>\$ 2,138,621</u>
Percentage of System General Obligation Bonds, Self-Supporting .....	100.00%
Budgeted Funds Available for Debt Service from Tax Increment Reinvestment	
Zone Revenue (TIRZ) collected for Fiscal Year 2016/17 .....	\$ 3,058,350
TIRZ General Obligation Bond Requirements, 2017 Fiscal Year .....	<u>2,964,841</u>
Balance .....	<u>\$ 93,509</u>
Percentage of TIRZ General Obligation Bonds, Self-Supporting .....	100.00%
Gross Revenue Available for Debt Service from Keller Development Corporation (KDC),	
Fiscal Year Ended 9-30-16 .....	\$ 2,727,791
KDC General Obligation Bond Requirements, 2017 Fiscal Year .....	<u>1,577,019</u>
Balance .....	<u>\$ 1,150,772</u>
Percentage of KDC General Obligation Bonds, Self-Supporting .....	100.00%
Gross Revenue Available for Debt Service from Keller Crime Control Prevention District,	
Fiscal Year Ended 9-30-16 .....	\$ 1,282,574
System General Obligation Bond Requirements, 2017 Fiscal Year .....	<u>524,350</u>
Balance .....	<u>\$ 758,224</u>
Percentage of System General Obligation Bonds, Self-Supporting .....	100.00%

(1) It is the City's current policy to provide these payments from the respective revenue sources shown above; this policy is subject to change in the future.

**TABLE 11 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION DEBT**

The City does not have any authorized but unissued general obligation debt.

**ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT . . .** The City does not anticipate the issuance of additional general obligation debt and the City has made no decisions regarding the issuance of such debt at this point in time.

**TABLE 12 – OTHER OBLIGATIONS**

The City has no unfunded debt outstanding as of September 30, 2016.

**PENSION FUND . . .** The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.com](http://www.tmrs.com).

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

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

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

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

Employee Deposit Rate	7%
Matching Ratio (City to Employee)	2 to 1
Years Required for Vesting	5 Years
Service Retirement Eligibility (expressed as age/years of service)	60/5, 0/20
Updated Service Credit	100% repeating, transfers
Annuity Increase (to retirees)	50% of CPI repeating

**Employees Covered by Benefit Terms . . .** At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	118
Inactive Employees Entitled to But Not Yet Receiving Benefits	168
Active Employees	<u>290</u>
	576

**Contributions . . .** The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Keller were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 15.6% and 15.07% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016 were \$2,828,969, and were equal to the required contributions.

**Net Pension Liability . . .** The city's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

**Actuarial Assumptions . . .** The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.00% 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 Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2011 through December 31, 2014, first used in the December 31, 2015 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2015 valuation. After the Asset Allocation Study Analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	\$ 30,860,727	\$ 17,318,367	\$ 6,323,369

For more detailed information concerning the TMRS, see Appendix B, "Excerpts from the City's Comprehensive Annual Financial Report" - Note 8.

**OTHER POST-EMPLOYMENT BENEFITS** . . . The City provides other postemployment benefits (OPEB) in the form of health insurance benefits through a single-employer defined benefit medical plan. Regular full-time employees retiring from the City with 20 years of service or 5 years of service if over 60, have the option to continue medical insurance coverage for themselves and their families until the retiree becomes eligible for Medicare or is eligible to be covered under another medical plan. The retired employee pays 100% of the premium. A third-party administrator is utilized to provide claims administration and payment of claims.

The Plan does not issue a separate financial report.

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years on an open basis. The City's annual OPEB cost and net OPEB obligation (asset) for the prior three years is shown below:

Annual Required Contribution (ARC)	\$ 144,231
Interest on Net Pension Obligation	19,228
Adjustment to the ARC	<u>(18,731)</u>
Annual Pension Cost	\$ 144,728
Contributions Made	<u>(48,737)</u>
Increase (Decrease) in Net Pension Obligation	\$ 95,991
Net Pension Obligation/(Asset), beginning of year	<u>480,694</u>
Net Pension Obligation/(Asset), end of year	<u><u>\$ 576,685</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years are as follows:

<u>Fiscal Year Ended 9/30</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 107,412	\$ 4,192	3.9%	\$ 397,514
2015	119,912	36,732	30.6%	480,694
2016	144,728	48,737	33.7%	576,685

As of December 31, 2015, the most recent actuarial valuation date, the Plan was 0.00 percent funded. The actuarial accrued liability for the benefits was \$1,216,632, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,216,632. The annual covered payroll is \$17,556,291 and the UAAL as a percentage of covered payroll is 6.93 percent.

*Supplemental Death Benefits* . . . The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post-employment benefit," or OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund. For the year ended September 30, 2016, the City offered the supplemental death benefit to both active and retired employees.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's annual required and actual contributions to the TMRS SDBF was based on .13% in fiscal year 2013 and .14% in fiscal year 2014 and 2015 of covered payroll. The actual contributions for the fiscal years ended 2016, 2015, and 2014 totaled \$26,005, \$22,676, and \$22,676, respectively, which equaled the annual required contribution.

For more information concerning the City's other post-employment benefits, see Appendix B, "Excerpts from the City's Annual Financial Report" - Note 9-10.

## FINANCIAL INFORMATION

**TABLE 13 - CHANGES IN NET ASSETS**

	Fiscal Year Ended September 30,				
	2016	2015	2014	2013	2012
<b>Program Revenues:</b>					
Charges for Services	\$ 6,741,138	\$ 4,961,205	\$ 5,886,557	\$ 4,689,309	\$ 3,824,395
Operating Grants and Contributions	3,878,523	3,373,672	3,590,362	2,751,993	2,301,766
Capital Grants and Contributions	1,881,643	285,924	251,533	1,117,756	3,969,333
<b>General Revenues:</b>					
Property Taxes	24,046,908	22,777,252	21,526,556	20,691,721	20,036,667
Sales/Other Taxes	15,858,339	14,274,477	13,103,936	12,127,884	11,508,338
Investment Earnings	153,866	861,938	180,677	153,767	192,931
Miscellaneous	208,575	164,711	240,932	295,807	270,763
Gain (Loss) of Sale of Assets	727,056	15,891	98,274	104,855	18,508
<b>Total Revenues</b>	<b>\$ 53,496,048</b>	<b>\$ 46,715,070</b>	<b>\$ 44,878,827</b>	<b>\$ 41,933,092</b>	<b>\$ 42,122,701</b>
<b>Expenses:</b>					
General Government	\$ 6,606,428	\$ 9,224,860	\$ 7,011,362	\$ 7,973,740	\$ 7,470,050
Planning & Community Development	3,073,034	1,870,887	1,357,417	1,425,851	1,283,179
Public Safety	20,789,609	20,941,821	16,756,956	19,415,960	18,753,263
Public Works	5,715,323	3,138,376	2,490,468	2,981,588	2,823,250
Recreation and Leisure	6,130,399	5,855,468	4,938,515	5,345,157	5,125,705
Interest on Long-Term Debt	2,068,775	2,542,830	2,882,936	3,277,731	3,213,595
<b>Total Expenses</b>	<b>\$ 44,383,568</b>	<b>\$ 43,574,242</b>	<b>\$ 35,437,654</b>	<b>\$ 40,420,027</b>	<b>\$ 38,669,042</b>
<b>Increase in Net Position</b>					
before Transfers	\$ 9,112,480	\$ 3,140,828	\$ 9,441,173	\$ 1,513,065	\$ 3,453,659
Transfers	859,937	3,342,990	3,826,555	3,986,940	3,549,470
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 9,972,417</b>	<b>\$ 6,483,818</b>	<b>\$ 13,267,728</b>	<b>\$ 5,500,005</b>	<b>\$ 7,003,129</b>
<b>Adjustments</b>					
Net Assets - October 1	\$ 1,693,930	\$ (7,341,246)	\$ (909,473)	\$ -	\$ (139,843)
Net Assets - September 1	125,145,485	126,002,913	113,644,658	108,144,653	101,281,367
<b>Net Assets - September 30</b>	<b>\$ 136,811,832</b>	<b>\$ 125,145,485</b>	<b>\$ 126,002,913</b>	<b>\$ 113,644,658</b>	<b>\$ 108,144,653</b>

**TABLE 13A - GENERAL FUND REVENUES AND EXPENDITURES HISTORY**

Revenues	Fiscal Year Ended September 30,				
	2016	2015	2014	2013	2012
Total Property Tax	\$ 14,682,864	\$ 14,872,914	\$ 13,845,215	\$ 13,349,218	\$ 12,614,247
Sales Tax	5,705,047	5,340,418	4,960,591	4,639,063	4,368,625
Franchise/Other Local Tax	4,379,496	3,614,430	3,286,220	2,942,997	2,892,548
Permits, Licenses and Fees	1,646,560	1,899,434	2,015,896	1,828,780	1,239,406
Intergovernmental Revenue	2,829,568	2,890,652	3,066,407	2,509,067	2,182,010
Charges for Services	3,385,998	1,561,413	1,490,866	1,398,297	1,419,215
Fines and Warrants	1,183,988	1,017,820	1,214,121	814,696	831,432
Interest on Investments	58,874	73,069	87,059	73,394	95,562
Miscellaneous	176,109	212,447	278,989	327,588	304,842
Donations	62,726	42,964	31,832	53,876	24,788
<b>Total Revenues</b>	<b>\$ 34,111,230</b>	<b>\$ 31,525,561</b>	<b>\$ 30,277,196</b>	<b>\$ 27,936,976</b>	<b>\$ 25,972,675</b>
<b>Expenditures</b>					
General Government	\$ 4,836,508	\$ 6,614,984	\$ 6,132,607	\$ 5,903,842	\$ 5,671,742
Community Development	2,279,163	1,365,628	1,212,552	1,086,784	991,240
Public Safety	15,343,904	15,042,122	14,757,070	14,409,664	14,280,170
Public Works	2,488,151	2,165,626	2,177,559	2,182,433	2,154,320
Parks and Recreation	4,580,043	4,215,320	4,363,524	3,968,037	3,801,680
Capital Outlay	979,708	1,238,198	3,384,739	1,169,112	2,374,794
<b>Total Expenditures</b>	<b>\$ 30,507,477</b>	<b>\$ 30,641,878</b>	<b>\$ 32,028,051</b>	<b>\$ 28,719,872</b>	<b>\$ 29,273,946</b>
<b>Excess (Deficiency) of Revenues</b>					
Over Expenditures	\$ 3,603,753	\$ 883,683	\$ (1,750,855)	\$ (782,896)	\$ (3,301,271)
Sales of Capital Assets	721,437	17,510	14,290	22,434	63,784
Operating Transfers In	-	3,238,715	3,293,852	3,487,875	3,072,670
Operating Transfers Out	(10,405,781)	(346,292)	(300,000)	(33,625)	(137,500)
Note Proceeds	-	-	-	-	-
Increase (Decrease) in Fund Balance	\$ (6,080,591)	\$ 3,793,616	\$ 1,257,287	\$ 2,693,788	\$ (302,317)
Beginning Fund Balance	20,132,549	16,338,933	15,081,646	12,387,858	12,690,175
Adjustments	(1,157,610)	-	-	-	-
<b>Ending Fund Balance</b>	<b>\$ 12,894,348</b>	<b>\$ 20,132,549</b>	<b>\$ 16,338,933</b>	<b>\$ 15,081,646</b>	<b>\$ 12,387,858</b>

**TABLE 14 - MUNICIPAL SALES TAX HISTORY**

The City has adopted the Municipal Sales and Use Tax Act, V.T.C.A., Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Obligations. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. In January of 1992, the voters of the City approved the imposition of an additional sales and use tax of one-half of one percent (½ of 1%) for parks and recreation facilities. Collection for the additional tax went into effect on July 1, 1992. The sales tax for parks and recreational facilities is collected solely for the benefit of Keller Development Corporation (the "Corporation"), and may be pledged to secure payment of sales tax revenue bonds issued by the Corporation for the aforementioned purposes. In November, 2001, the voters approved the imposition of an additional sales and use tax of three-eighths of one percent (3/8<sup>th</sup> of 1%) for crime control and prevention pursuant to Chapter 363 of the Texas Government Code. In May 2006, this tax was re-authorized by the voters for an additional fifteen years, and in November 2007, voters authorized a reduction in the rate from 3/8<sup>th</sup> of 1% to ¼ of 1%. Said sales tax is collected solely for the benefit of the Keller Crime Control and Prevention District Board of Directors and may be pledged to secure payment of sales tax revenue bond issues. In November, 2003, the voters approved the imposition of an additional sales and use tax of one-eighth of one percent (1/8<sup>th</sup> of 1%) for street maintenance pursuant to Chapter 327 of the Texas Government Code. In November 2007, this tax was re-authorized by the voters for an additional four years at ¼ of 1%, effective April 1, 2008. Said sales tax is collected solely for the repair, rehabilitation and reconstruction of existing streets and may be pledged to secure payment of sales tax revenue bond issues. **Such sales tax revenues are not pledged to the payment of the Obligations.**

Fiscal Year Ended	1% Total Collected <sup>(1)</sup>	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2013	\$ 4,626,749	25.68%	\$ 0.1126	\$ 113
2014	4,960,591	26.56%	0.1163	118
2015	5,340,418	27.24%	0.1178	125
2016	5,705,047	27.90%	0.1104	130
2017 <sup>(2)</sup>	3,894,362	17.49%	0.0725	88

(1) Excludes the Keller Development Corporation sales tax, the Keller Crime Control Prevention District sales tax, and the street maintenance tax.

(2) Collections for part year only, through June 1, 2017

The sales tax breakdown for the City is as follows:

Economic and Community Development	0.500¢
City Sales & Use Tax	1.000¢
Crime Control and Prevention	0.250¢
Street Maintenance Tax	0.250¢
State Sales & Use Tax	<u>6.250¢</u>
<b>Total</b>	<b>8.250¢</b>

**FINANCIAL POLICIES**

**Basis of Accounting . . .** The City's accounting records of the governmental fund revenues and expenditures are recognized on the modified accrual basis. Under the modified accrual basis of accounting, revenues are recorded when they become both measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenues susceptible to accrual are property taxes, franchise taxes and sales taxes and are recognized as revenue when measurable. However, the City has established an allowance for delinquent taxes equal to 100% of uncollected ad valorem taxes. As a result only ad valorem taxes collected are actually recognized as revenue. Gross receipts of taxes, license, charges for services, fines and miscellaneous revenues are recorded as revenue when received because they are generally not measurable until received.

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

Transfers are recognized in the period in which the interfund receivable and payable arise.

**Budgetary Procedures . . .** The City adopts an annual appropriated budget for the General Fund, the Water and Sewer Fund, Debt Service Fund and the Drainage Utility Fund. All annual appropriations lapse at fiscal year end. The budget is legally enacted through passage of an ordinance after public hearings are conducted for the purpose of obtaining taxpayer comments. Project lengths financial plans are adopted for capital improvement program funds.

## INVESTMENTS

The City invests its investable funds in investments authorized by Texas law and 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 . . .** Under Texas law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations 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 or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) certificates of deposit and share certificates (i) issued by a depository institution that has its main office or a branch office in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or (ii) that are invested by the City through a depository institution that has its main office or a branch office in the State of Texas and otherwise meet the requirements of the Public Funds Investment Act (Chapter 2256 of the Texas Government Code) (the "PFIA"); (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State primary government securities dealer or a financial institution doing business in the State; (9) bankers' acceptances with a stated maturity of 270 days or less from 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. 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 of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM 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, and 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 during 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.

**ADDITIONAL PROVISIONS . . .** Under State 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 May 31, 2017, the City's investable funds were invested in the following categories:

Description	Book Value as a % of Total	Book Value	Market Value
Investment Pools	22.72%	\$ 18,549,667	\$ 18,549,667
Treasuries	2.45%	2,000,079	2,000,064
Certificates of Deposit	45.60%	37,228,249	37,228,249
Money Market Funds/Cash	29.22%	23,854,384	23,854,384
	<u>100.00%</u>	<u>\$ 81,632,378</u>	<u>\$ 81,632,364</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.

## TAX MATTERS

### TAX EXEMPTION . . .

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

In rendering its opinion, Bond Counsel to the City will rely upon (a) the City's federal tax certificate and the verification report prepared by Grant Thornton LLP, and (b) covenants of the City with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Obligations and certain other matters. Failure of the City to comply with these representations or covenants could cause the interest on the Obligations to become includable in gross income retroactively to the date of issuance of the Obligations.

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

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

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

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

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

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

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

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

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

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

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

Interest on the Obligations will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code.

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

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

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

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

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

## CONTINUING DISCLOSURE OF INFORMATION

In the Ordinances the City has made the following agreement in each Ordinance for the benefit of the holders and beneficial owners of the Obligations. The City is required to observe the agreements while it remains obligated to advance funds to pay such Obligations. Under the Agreements, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain 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](http://www.emma.msrb.org).

**ANNUAL REPORTS . . .** The City will provide certain updated financial information and operating data to the MSRB on an annual basis in an electronic format that is prescribed by the MSRB and available via the EMMA. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 15 and in APPENDIX B. The City will update and provide the information in Tables 1 through 6 and 8 through 15 within six months after the end of each fiscal year ending in and after 2017. The City will additionally provide audited financial statements when and if available, and in any event, within 12 months after the end of each fiscal year ending in or after 2017. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City will file unaudited financial statements within such 12 month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available.

Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site identified above or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

The City's current fiscal year end is September 30. Accordingly, the City must provide updated information included in Tables 1 through 6 and 8 through 15 by the last day of March in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) as described above. If the City changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the City otherwise would be required to provide financial information and operating data as set forth above.

**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 Obligations 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 Obligations, or other material events affecting the tax status of the Obligations; (7) modifications to rights of holders of the Obligations, if material; (8) Obligation calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations, 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.

**LIMITATIONS AND AMENDMENTS . . .** The City has agreed to update information and to provide notices of certain 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 Obligations 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 Obligations may seek a writ of mandamus to compel the City to comply with its agreement.

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

**COMPLIANCE WITH PRIOR UNDERTAKINGS . . .** For fiscal years ended September 30, 2014 and September 30, 2015, the City timely filed financial information and operating data with respect to the City in the form of tables as outlined in the above subcaption "Annual Reports" by the respective March 31, 2015 and March 31, 2016 deadlines (the "Filing Deadline"). The City's audited financial statements were not completed and provided to the City until after the Filing Deadline. As provided in certain of its prior undertakings, the City was required to file unaudited financial statements to the extent the audited financial statements were not available by the Filing Deadline. The City filed unaudited financial information for certain tables outlined in the above subcaption "Annual Reports" by the Filing Deadline and subsequently filed its audited financial statements on April 20, 2015 and May 11, 2016, respectively.

## **OTHER INFORMATION**

### **RATINGS**

The Obligations and the presently outstanding tax supported debt of the City are rated "Aa1" by Moody's and "AAA" by S&P. 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 organization 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 Obligations.

### **LITIGATION**

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

### **REGISTRATION AND QUALIFICATION OF OBLIGATIONS FOR SALE**

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

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

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Obligations are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Obligations by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Obligations be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "Other Information - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Obligations are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Obligations are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Obligations are legal investments for various institutions in those states.

## **LEGAL OPINIONS**

The City will furnish to the Underwriters a complete transcript of proceedings had incident to the authorization and issuance of each series of the Obligations, including the unqualified approving legal opinions of the Attorney General of Texas approving the Initial Certificate and the Initial Bond and to the effect that such Obligations are valid and legally binding obligations of the City, and based upon examination of such transcripts of proceedings, the approving legal opinions of Bond Counsel, to like effect and to the effect that the interest on the Obligations will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, including the alternative minimum tax on corporations. Though it may represent the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Obligations, Bond Counsel has been engaged by and only represents the City in the issuance of the Obligations. Bond Counsel was not requested to participate, and did not take part, in the preparation of 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 under captions or subcaptions "Plan of Financing" (exclusive of the subcaption "Sources and Uses of Proceeds"), "The Obligations" exclusive of the subcaptions "Book-Entry-Only System" and "Remedies"), "Tax Matters", "Continuing Disclosure of Information" (exclusive of the subcaption "Compliance with Prior Undertakings"), "Other Information - Registration and Qualification of Obligations for Sale", "Other Information - Legal Investments and Eligibility to Secure Public Funds in Texas" and "Other Information - Legal Opinions" (excluding the last sentence of the first paragraph thereof) in the Official Statement and such firm is of the opinion that the information relating to the Obligations and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Obligations, such information conforms to the Ordinances. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Obligations is contingent on the sale and delivery of the Obligations. Certain legal matters will be passed upon for the Underwriters by Norton Rose Fulbright US LLP Dallas, Texas, Counsel for the Underwriters, whose legal fees are contingent upon the sale and delivery of the Obligations.

The legal opinions to be delivered concurrently with the delivery of the Obligations 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 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 ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and ordinances. 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**

FirstSouthwest, a Division of Hilltop Securities Inc. is employed as Financial Advisor to the City in connection with the issuance of the Obligations. The Financial Advisor's fee for services rendered with respect to the sale of the Obligations is contingent upon the issuance and delivery of the Obligations. FirstSouthwest, in its capacity as Financial Advisor, 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 Obligations, 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.

## **VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS**

Grant Thornton LLP, a firm of independent public accountants, will deliver to the City, on or before the settlement date of the Bonds, its verification report indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrowed Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Obligations and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes.

The verification performed by Grant Thornton LLP will be solely based upon data, information and documents provided to Grant Thornton LLP by First Southwest Company, LLC on behalf of the City. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by First Southwest Company, LLC on behalf of the City and has not evaluated or examined the assumptions or information used in the computations.

The report will be relied upon by Bond Counsel in rendering its opinion with respect to the tax-exemption of interest on the Obligations and with respect to the defeasance of the Refunded Obligations.

#### **UNDERWRITING**

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

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

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

#### **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 Ordinances authorizing the issuance of the Obligations will approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Obligations by the Underwriters.

PAT MCGRAIL  
Mayor  
City of Keller, Texas

ATTEST:

KELLY BALLARD  
City Secretary

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## SCHEDULE OF REFUNDED OBLIGATIONS\*

## General Obligation Bonds, Series 2009

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
8/15/2005	2/15/2020	4.000%	\$ 200,000	\$ 200,000
	2/15/2021	4.100%	210,000	210,000
	2/15/2022	4.200%	220,000	220,000
	2/15/2023	4.300%	235,000	235,000
	2/15/2024	4.400%	245,000	245,000
	2/16/2025	4.450%	255,000	255,000
	2/17/2026	4.500%	270,000	270,000
	2/18/2027	4.550%	280,000	280,000
	2/19/2028	4.600%	295,000	295,000
	2/20/2029	4.650%	310,000	310,000
			<u>\$ 2,520,000</u>	<u>\$ 2,520,000</u>

The 2020 – 2029 maturities will be redeemed prior to original maturity on February 15, 2019 at par.

## Combination Tax and Revenue Certificates of Obligation, Series 2009

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
7/15/2006	2/15/2020	4.000%	\$ 400,000	\$ 400,000
	2/15/2021	4.000%	420,000	420,000
	2/15/2022	4.100%	440,000	440,000
	2/15/2023	4.200%	460,000	460,000
	2/15/2024	4.300%	485,000	485,000
	2/15/2025	4.400%	510,000	510,000
	2/15/2026	4.500%	530,000	530,000
	2/15/2027	4.600%	565,000	565,000
	2/15/2028	4.650%	585,000	585,000
	2/15/2029	4.700%	615,000	615,000
			<u>\$ 5,010,000</u>	<u>\$ 5,010,000</u>

The 2020 – 2029 maturities will be redeemed prior to original maturity on February 15, 2019 at par.

\* Preliminary, subject to change.

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**APPENDIX A**

**GENERAL INFORMATION REGARDING THE CITY**

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**LOCATION AND HISTORY . . .** The City was incorporated on November 16, 1955 under the general laws of the State of Texas, and the current home-rule charter was approved by the voters in 1982. The City operates under the Council-Manager form of government. The City Council is comprised of a mayor and five council members, who enact local legislation, determine overall City policies, pass ordinances, appoint committees, and adopt the City's budget. The Mayor and Council Members are all elected at-large on a non-partisan basis. Council members are elected for a two-year term on a rotating basis, with the Mayor and two council members elected in odd-numbered years, and the remaining three council members elected on even-numbered years. The City Manager is appointed by the Mayor and City Council and is responsible to them for proper administration of the daily affairs of the City, and appointment of heads of the various departments.

The City is located in Northeast Tarrant County, Texas, approximately 10 miles north of Fort Worth on U.S. Highway 377, and 25 miles northwest of downtown Dallas. It is part of the "Metroplex" of North Central Texas, which includes the cities of Fort Worth and Dallas, as well as the surrounding communities, with an estimated population exceeding 6.1 million. The city limits of Keller currently encompasses approximately 18.17 square miles.

The City provides a full range of municipal services including general government, public safety (police and fire), streets, parks and recreation, community development, planning and zoning, code enforcement, a public library, and business-type activities, such as water and sewer, and drainage utilities. Sanitation collection services are provided through private contractors; non-residential customers contract with the collection firm of their choice, while all residential customers contract through the City, with collection fees added to their municipal water, sewer, and drainage utility bills.

**POPULATION . . .** Since 1970, the total population increase exceeds 39,000. This increasing population trend is anticipated to continue for several years, although at a more reasonable pace. The City's 2017 estimated population is 44,050. Tarrant County has experienced similar growth during the last 30 years, increasing from 715,587 in 1970 to 1,809,034 in 2010. According to the North Central Texas Council of Governments population projections, the population of Tarrant County in 2016 was 1,928,300.

**ECONOMICS . . .** The City of Keller has a staff of approximately 343 full-time employees, including 86.5 police department personnel and 57 fire/EMS department employees. There are currently 12 local banks serving the City. These banks include, American National Bank, BBVA Compass Bank, Bank of America, N.A., Capital One Bank, N.A., First Financial Bank, N.A., Frost Bank, JP Morgan Chase Bank, N.A., Prosperity Bank, Regions Bank, Wells Fargo Bank, N.A., Banks of Ozarks and Woodforest National Bank.

Keller is a part of the Dallas/Fort Worth Metroplex which has maintained a very strong economy and is ranked as one of the fastest growing cities in the Metroplex. The City is located mid-way between the Dallas/Fort Worth International Airport and Alliance Airport. A favorable personal and corporate tax climate, excellent schools, favorable right to work laws and a strong continuing commitment to business have made the City and State positive areas in which businesses can locate. The key city strengths of Keller include a strong diversified economy, high home values, highly ranked public schools, a low unemployment rate, an extremely low crime rate and several quality of life amenities such as the Keller Pointe, Bear Creek Park, Keller Sports Park, Town Center, and the K-9 Pointe Dog Park. Based upon these strengths, the City has received several awards over the past few years including being named the seventh best city in Texas to raise a family by SmartAsset, Best Small Cities in America by WalletHub, Best Cities for Families in Texas by WalletHub, America's Top 100 Safest Cities by NeighborhoodScout, 50 Safest Cities in Texas, BackgroundChecks.org, 5 Best Fort Worth neighborhoods for Retirees by Movoto, and the Blue Peak Award by the Center for Children's Health.

In order to meet residential service demands, the City has recently completed several park, street/economic development redevelopment, and wastewater projects. The park improvements include a renovation of Bear Creek Park to replace a 60' x 30' pavilion, add a 30' x 26' pavilion, upgrade basketball courts, and add 102 parking spots, a 3,500 square foot expansion of the Keller Pointe recreation center and upgrade fitness equipment and the reception desk, and the city's first dog park. The city is completing a redevelopment of the west-side of US 377 from Keller Parkway to Bear Creek Parkway, also known as the Old Town Keller area. The project included additional parking, wayfinding, a public art display, a linear promenade along the entire project, and various water, wastewater, lighting, and sidewalk improvements. The City is completing construction on three related wastewater extension projects which provide wastewater services to Northern Keller which were funded thru Texas Water Development Board bonds (TWDB). The Katy road project provided sewer lines from Katy Road to Keller Parkway and added a lift station at Katy Road. The Marshall Branch project provided sewer lines to the Belaire Hills and Summer Ridge Estates in Northern Keller and connected the lines to the Trinity River Authority's (TRA) Denton Creek treatment plant. The Big Bear East Collectors project provided sewer lines for the Country Place Estates, Treehouse Lane, and Blackwood/Florence areas and connected the lines to the TRA's Central Regional treatment plant.

Major commercial projects that have recently been completed within Keller include: Sam's Club, a 140,058 sq. ft. general retail store, Seven Mile Café, a 5,100 sq. ft. restaurant, Roscoe's Café, a 5,202, sq. ft. restaurant, What's on Tap, a 1,490 sq. ft. craft beer bar, Shannon Brewery, a 5,973 sq. ft. craft brewery, and the Bowden Event Center, a 34,915 sq. ft. community center with chapel for weddings and events.

**EDUCATION** . . . As one of the fastest-growing school districts in Texas, Keller Independent School District (the "District") is proud to boast two National Blue Ribbon Schools of Excellence, 27 TEA Exemplary and Recognized schools and the 2007 Texas State Secondary Teacher of the Year. The District encompasses an area of approximately 51 square miles and conducts programs for K-12. The District has 39 campuses serving more than 34,203 students. Approximately 3,806 teachers, administrative personnel, and support staff are employed by the District. The District believes that education is a partnership among schools, parents and the community.

The physical facilities of the District include:

4	High schools (9-12)
6	Middle schools (7-8)
5	Intermediate schools (5-6)
22	Elementary schools (K-4)
1	Early Learning (Pre-K)
1	Alternative Education (9-12)

Educational opportunities beyond high school are readily available. The Northeast campus of the Tarrant County College District is within short driving distance. In addition, within a 40-mile radius, there are a number of colleges and universities, including Southern Methodist University, Texas Christian University, Texas Women's University, the University of North Texas, the University of Dallas, and the University of Texas at Arlington. In addition, there are several trade, industrial and technical schools located throughout the area.

**TRANSPORTATION** . . . The City is served by major highways both on a north/south and east/west axis. North/south highways are SH 121, SH 26, FM 1938 and US Hwy. 377. The east/west highways are IH Loop 820, SH 170, SH 183, and FM 1709. These major highways provide easy access to Dallas, Fort Worth and the surrounding Metroplex area.

Air service is provided by nearby Dallas/Fort Worth International Airport, the nation's third busiest airport, providing service to national and international destinations. Meacham Field, approximately five miles away in northern Fort Worth is a fixed base operation for private and commercial service and provides sophisticated instrument approach facilities, lighted runways, terminal facilities and fuel and maintenance services. Alliance Airport, located northwest of Keller, began limited operations in 1989, and is the first newly constructed industrial airport in the United States. The Airport is home to a new FedEx hub, BNSF Intermodal Terminal, DEA, Galaxy Aviation, and numerous company distribution facilities.

**MEDICAL** . . . Excellent health care facilities are located within minutes of the City, including four of the largest hospitals in Tarrant County. The Metroplex area is served by more than 70 hospitals which offer specialized services such as organ transplantation, major trauma care, cancer treatment, kidney dialysis and chemical dependency treatment. Baylor Medical and Diagnostic Center located on U.S. Highway 377 South in Keller has approximately 39,000 square-feet and commenced operation in March 2006. Lonestar Endoscope, also located on U.S. Highway 377 South (next to Baylor Medical) also provides important health services.

MISCELLANEOUS . . . The City offers suburban pedestrian-oriented quality of life living, tree lined streets with neighborhood connectivity via a massive system of hike and bike trails. The City is in close proximity (within a 40-minute drive time) to ten lakes, offering boating, fishing, camping, and picnicking facilities, entertainment facilities, and major sporting outlets.

The Cities of Fort Worth and Dallas with their varied cultural opportunities of theaters, museums, zoos, botanical gardens and professional sport teams are less than a 30 minute drive from the City.

**EMPLOYMENT DATA**

	April 2017	Average Annual 2016	Average Annual 2015	Average Annual 2014	Average Annual 2013	Average Annual 2012
<b>Keller:</b>						
Civilian Labor Force	23,811	23,303	22,798	22,294	22,029	21,477
Unemployed	781	792	776	922	1,146	1,185
Percent of Unemployed	3.28%	3.40%	3.40%	4.14%	5.20%	5.52%
<b>Dallas/Fort Worth/Arlington MSA:</b>						
Civilian Labor Force	3,770,081	3,684,673	3,571,049	3,529,700	3,478,198	3,420,186
Unemployed	144,657	141,818	145,176	177,359	211,077	225,014
Percent of Unemployed	3.84%	3.85%	4.07%	5.02%	6.07%	6.58%
<b>Tarrant County</b>						
Civilian Labor Force	1,030,042	1,008,020	988,324	989,350	982,665	966,259
Unemployed	39,474	39,774	41,104	49,672	59,105	62,944
% of Unemployment	3.83%	3.95%	4.16%	5.02%	6.01%	6.51%

Source: Texas Workforce Commission.

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**APPENDIX B**

EXCERPTS FROM THE  
CITY OF KELLER, TEXAS  
ANNUAL FINANCIAL REPORT  
For the Year Ended September 30, 2016

The information contained in this Appendix consists of excerpts from the City of Keller, Texas Annual Financial Report for the Year Ended September 30, 2016, 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.

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**APPENDIX C**

**FORMS OF BOND COUNSEL'S OPINIONS**

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**Proposed Form of Opinion of Bond Counsel**

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

(Date)

**CITY OF KELLER, TEXAS  
GENERAL OBLIGATION REFUNDING BONDS  
SERIES 2017  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$7,290,000**

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AS BOND COUNSEL FOR THE CITY OF KELLER, TEXAS, (the "Issuer") in connection with the issuance of the General Obligation Refunding Bonds, Series 2017, described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates and mature on the dates, and are subject to redemption prior to maturity, in accordance with the terms and conditions stated in the text of the Bonds and in the ordinance of the Issuer authorizing the issuance and sale of the Bonds (the "Bond Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Bond Ordinance.

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

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized, issued and delivered in accordance with law; and that the Bonds, except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally, and by general principles of equity and sovereign immunity of political subdivisions which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Bonds have been levied and pledged for such purpose, within the limit prescribed by law, as provided in the Bond Ordinance.

IT IS FURTHER OUR OPINION that, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code").

IN EXPRESSING THE AFOREMENTIONED OPINIONS, we have relied on and assume continuing compliance with certain representations contained in the federal tax certificate of the Issuer and covenants set forth in the Bond Ordinance, relating to, among other matters, the use of the projects being refinanced and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Bonds and on the and the report of Grant Thornton LLP verifying the sufficiency of the amounts deposited to the escrow fund to pay the principal of and interest on the refunded obligations on their respective due dates, the accuracy of which we have not independently verified. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to

comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds.

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

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

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering our opinions with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,

**Proposed Form of Opinion of Bond Counsel**

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

**CITY OF KELLER, TEXAS  
COMBINATION TAX AND LIMITED SURPLUS REVENUE  
CERTIFICATES OF OBLIGATION, SERIES 2017  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$9,455,000**

---

AS BOND COUNSEL FOR THE CITY OF KELLER, TEXAS (the "Issuer") in connection with the issuance of the Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2017, described above (the "Certificates of Obligation"), we have examined into the legality and validity of the Certificates of Obligation, which bear interest from the dates and mature on the dates, and are subject to redemption prior to maturity, in accordance with the terms and conditions stated in the text of the Certificates of Obligation and in the ordinance of the Issuer authorizing the issuance and sale of the Certificates of Obligation (the "Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

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

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates of Obligation have been duly authorized, issued, and delivered in accordance with law; and that the Certificates of Obligation, except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally, and by general principles of equity and sovereign immunity of political subdivisions which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Certificates of Obligation have been levied and pledged for such purpose, within the limit prescribed by law, and that the Certificates of Obligation are additionally secured by and payable from limited surplus revenues of the Issuer's waterworks and sewer system, remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with all of the Issuer's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the Issuer's waterworks and sewer system, as provided in the Ordinance.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Certificates of Obligation is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Certificates of Obligation are not "specified private activity bonds" and that, accordingly, interest on the Certificates of Obligation will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code").

IN EXPRESSING THE AFOREMENTIONED OPINIONS, we have relied on and assume continuing compliance with, certain representations contained in the federal tax certificate of the Issuer and covenants set forth in the Ordinance, relating to, among other matters, the use of the project being financed and the

investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Certificates of Obligation, the accuracy of which we have not independently verified. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Certificates of Obligation may become includable in gross income retroactively to the date of issuance of the Certificates of Obligation.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Certificates of Obligation, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Certificates of Obligation.

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

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

OUR SOLE ENGAGEMENT in connection with the issuance of the Certificates of Obligation is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering our opinions with respect to the legality and validity of the Certificates of Obligation under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Certificates of Obligation for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Certificates of Obligation, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Certificates of Obligation and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of and assessed valuation of taxable property within, and the sufficiency of the pledged revenues of, the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Certificates of Obligation has been limited as described therein.

Respectfully,

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Financial Advisory Services  
Provided By

