

PRELIMINARY OFFICIAL STATEMENT

Dated November 26, 2018

Ratings:

Fitch: "AA+"

S&P: "AA+"

(See "OTHER INFORMATION - RATINGS" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS - Tax Exemption" herein, and is not includable in the alternative minimum taxable income of individuals. See "TAX MATTERS - Tax Exemption" for a discussion of the opinion of Bond Counsel, including the alternative minimum tax consequences for corporations.



\$13,745,000*

CITY OF SUGAR LAND, TEXAS

(Fort Bend County)

WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2019

Dated Date: December 1, 2018

Due: August 15, as shown on inside cover

PAYMENT TERMS . . . Interest on the \$13,745,000* City of Sugar Land, Texas Waterworks and Sewer System Revenue Bonds, Series 2019 (the "Bonds") will accrue from December 1, 2018 (the "Dated Date"), will be payable until maturity or prior redemption on February 15 and August 15 commencing August 15, 2019, 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 in the name of 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 principal denominations of \$5,000 or integral multiple thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar (defined below) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "The Bonds - Book-Entry-Only System" herein. The initial paying agent/registrar for the Bonds is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar") (see "The Bonds - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE/SECURITY FOR PAYMENT . . . The Bonds are issued pursuant to the general laws of the State of Texas, particularly Chapter 1502, Texas Government Code, and an ordinance (the "Ordinance") passed by the City Council authorizing the issuance of the Bonds. The Bonds are special obligations of the City of Sugar Land, Texas (the "City"), payable, both as to principal and interest, solely from and secured by a first lien on and pledge of the Net Revenues (defined herein) of the City's waterworks and sanitary sewer system (the "System"). The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation (see "The Bonds - Authority for Issuance" and "-Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Bonds will be used (i) for collection system rehabilitation, lift station rehabilitation, easement acquisition, wastewater plant and rehabilitation, groundwater plant improvement, well rehabilitation, distribution and water storage tank rehabilitation, and (ii) to pay the costs incurred in connection with the issuance of the Bonds

MATURITY SCHEDULE

See page 2

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

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

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Initial Purchaser(s) listed herein (the "Initial Purchaser") and subject to the approving opinion of the Attorney General of Texas and the opinion of Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel (see APPENDIX C, "FORM OF BOND COUNSEL'S OPINION").

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on January 9, 2019.

BIDS DUE ON THE BONDS TUESDAY, DECEMBER 4, 2018 AT 11:15 A.M. CST

* Preliminary, subject to change.

MATURITY SCHEDULE

\$13,745,000* Waterworks and Sewer System Revenue Bonds, Series 2019

| Principal | Maturity August 15 | Interest Rate | Price or Yield ⁽¹⁾ | CUSIP Numbers ⁽²⁾ | Principal | Maturity August 15 | Interest Rate | Price or Yield ⁽¹⁾ | CUSIP Numbers ⁽²⁾ |
|------------|-----------------------|------------------|----------------------------------|---------------------------------|------------|-----------------------|------------------|----------------------------------|---------------------------------|
| \$ 405,000 | 2019 | % | % | | \$ 675,000 | 2030 ⁽³⁾ | % | % | |
| 475,000 | 2020 | | | | 690,000 | 2031 ⁽³⁾ | | | |
| 495,000 | 2021 | | | | 715,000 | 2032 ⁽³⁾ | | | |
| 515,000 | 2022 | | | | 745,000 | 2033 ⁽³⁾ | | | |
| 535,000 | 2023 | | | | 765,000 | 2034 ⁽³⁾ | | | |
| 545,000 | 2024 | | | | 765,000 | 2035 ⁽³⁾ | | | |
| 570,000 | 2025 | | | | 795,000 | 2036 ⁽³⁾ | | | |
| 590,000 | 2026 | | | | 820,000 | 2037 ⁽³⁾ | | | |
| 610,000 | 2027 | | | | 850,000 | 2038 ⁽³⁾ | | | |
| 630,000 | 2028 | | | | 895,000 | 2039 ⁽³⁾ | | | |
| 660,000 | 2029 ⁽³⁾ | | | | | | | | |

(Accrued interest from December 1, 2018 to be added)

- (1) The initial reoffering prices or yields on the Bonds are furnished by the Initial Purchaser and represent the initial offering prices or yields to the public, which may be changed by the Initial Purchaser at any time.
- (2) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association, and are included solely for the convenience of the beneficial owners of the Bonds. Neither the City nor the Initial Purchaser of the Bonds is responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (3) The Bonds maturing on or after August 15, 2029 are subject to redemption, at the option of the City, on August 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See "THE BONDS – OPTIONAL REDEMPTION."

* Preliminary, subject to change.

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

| City Council | Occupation | Position |
|---------------------|--------------------|--|
| Joe R. Zimmerman | Engineer | Mayor |
| Himesh Gandhi | Attorney | Councilmember At Large Position 1 |
| Jennifer J. Lane | Substitute Teacher | Councilmember At Large Position 2 |
| Steve R. Porter | Retired | Councilmember Single Member District 1 |
| Bridget R. Yeung | Financial Advisor | Councilmember Single Member District 2 |
| Amy L. Mitchell | Attorney | Councilmember Single Member District 3 |
| Carol K. McCutcheon | Retired (Engineer) | Councilmember Single Member District 4 |

APPOINTED OFFICIALS

| Name | Position | Year Employed |
|-------------------|------------------------------|---------------|
| Allen Bogard | City Manager | 1995 |
| Steve Griffith | First Assistant City Manager | 2005 |
| Doug Brinkley | Assistant City Manager | 2005 |
| Chris Steubing | Assistant City Manager | 2006 |
| Jennifer May | Assistant City Manager | 2006 |
| Jennifer Brown | Director of Finance | 2000 |
| Meredith Riede | City Attorney | 2013 |
| Glenda Gundermann | City Secretary | 1983 |

CONSULTANTS AND ADVISORS

| | |
|------------------------------------|--|
| Certified Public Accountants | Whitley Penn, LLP Houston, Texas |
| Bond Counsel..... | Hunton Andrews Kurth LLP Houston, Texas |
| Financial Advisor..... | Hilltop Securities, Inc. Houston, Texas |

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

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

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.

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

Neither the City, Bond Counsel, the Financial Advisor nor the Initial Purchaser make any representation or warranty with respect to the information contained in this Official Statement regarding the Depository Trust Company ("DTC") or its book-entry-only system as described under "THE BONDS -Book-Entry-Only System" as such information has been provided by DTC.

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

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

This Official Statement contains "Forward-Looking" statements within the meaning of Section 21E of the Securities and Exchange Act of 1934. 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 the future results, performance and achievements expressed or implied by such forward-looking statements. Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.

The prices and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Initial Purchaser after such Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts.

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

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

OFFICIAL STATEMENT SUMMARY

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

| | |
|-------------------------------------|---|
| THE CITY | The City of Sugar Land, Texas (the "City") is a political subdivision and home rule municipality of the State of Texas (the "State"), located in Fort Bend County, Texas. The City covers approximately 42.85 square miles (see "INTRODUCTION - DESCRIPTION OF THE CITY" and "THE CITY"). |
| THE BONDS | The Bonds are issued as \$13,745,000* Waterworks and Sewer System Revenue Bonds, Series 2019 (the "Bonds"). The Bonds are issued as serial bonds maturing on August 15 in the years 2019 through 2039, each inclusive, unless the Initial Purchaser designates two or more consecutive maturities as a Term Bond (see "THE BONDS - DESCRIPTION OF THE BONDS" and "- MANDATORY SINKING FUND REDEMPTION"). |
| PAYMENT OF INTEREST | Interest on the Bonds accrues from December 1, 2018, and is payable August 15, 2019, and each February 15 and August 15 thereafter until maturity or prior redemption (see "THE BONDS - DESCRIPTION OF THE BONDS" and "THE BONDS - OPTIONAL REDEMPTION"). |
| AUTHORITY FOR ISSUANCE | The Bonds are issued pursuant to the general laws of the State, particularly Chapter 1502, Texas Government Code, and an ordinance passed by the City Council of the City authorizing the issuance of the Bonds (the "Ordinance") (see "THE BONDS - AUTHORITY FOR ISSUANCE"). |
| SECURITY FOR THE BONDS | The Bonds constitute special obligations of the City, payable, both as to principal and interest, solely from and secured by a first lien on and pledge of the Net Revenues (defined herein) of the System (defined herein). Owners of the Bonds are not entitled to demand payment of the Bonds out of any money raised or to be raised by taxation (see "THE BONDS - SECURITY AND SOURCE OF PAYMENT"). |
| REDEMPTION | The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2029, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - OPTIONAL REDEMPTION"). Additionally, the Bonds will be subject to mandatory sinking fund redemption in the event the Initial Purchaser elects to aggregate two or more consecutive maturities as a Term Bond (see "THE BONDS - MANDATORY SINKING FUND REDEMPTION"). |
| TAX EXEMPTION | In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS – TAX EXEMPTION" herein, and is not includable in the alternative minimum taxable income of individuals. See "TAX MATTERS – TAX EXEMPTION" for a discussion of the opinion of Bond Counsel, including the alternative minimum tax on corporations. |
| USE OF PROCEEDS | Proceeds from the sale of the Bonds will be used (i) for collection system rehabilitation, lift station rehabilitation, easement acquisition, wastewater plant and rehabilitation, groundwater plant improvement, well rehabilitation, distribution and water storage tank rehabilitation and (ii) to pay the costs incurred in connection with the issuance of the Bonds. |
| RATINGS | The Bonds and presently outstanding revenue debt of the City are rated "AA+" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "AA+" by Fitch Ratings ("Fitch"), without regard to credit enhancement (see "OTHER INFORMATION – RATINGS"). |
| BOOK-ENTRY-ONLY SYSTEM | The definitive Bonds will be initially registered in the name of and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - BOOK-ENTRY-ONLY SYSTEM"). |
| PAYMENT RECORD | The City has never defaulted in payment of its bonds. |

* Preliminary, subject to change.

FINANCIAL HIGHLIGHTS

| | |
|---|-------------------|
| Waterworks and Sewer System Revenue Bonds Outstanding as of September 30, 2018..... | \$ 98,510,000 |
| The Bonds..... | <u>13,745,000</u> |
| Total Revenue Debt..... | \$112,255,000 |
| | |
| Waterworks and Sewer System Indebtedness Payable to City General Fund as of September 30, 2018 ⁽¹⁾ | \$ 84,175,000 |
| | |
| City Water Connections (September 30, 2018)..... | 40,009 |
| City Wastewater Connections (September 30, 2018)..... | 37,688 |
| | |
| Waterworks and Sewer System Statement of Operations (September 30, 2018) | |
| Total Revenues..... | \$ 48,262,320 |
| Total Expenses..... | <u>19,296,000</u> |
| Waterworks and Sewer System Revenue Available for Debt Service..... | \$ 28,966,320 |
| | |
| Maximum Annual City Revenue Bond Debt Service (2020) ⁽²⁾ | \$ 10,789,225 |
| Coverage of Maximum Annual Revenue Bond Debt Service by September 30, 2018 Net Revenues Available..... | 2.68x |

-
- (1) A portion of the City's Combination Tax and Revenue Certificates of Obligation, Series 2016 ("the Series 2016 Certificates"), General Obligation Refunding Bonds, Series 2017 ("the Series 2017 Bonds" and together Certificates and the Series 2016 Certificates, the "Surface Water Enterprise Obligations") are secured by a pledge of both ad valorem taxes and a subordinate pledge of net revenues of the waterworks and sewer system after the payment of senior lien obligations such as the Bonds; however, it is the intention and practice of the City to pay for the Surface Water Enterprise Obligations from net revenues derived from the City's waterworks and sewer system. Should waterworks and sewer system net revenues be insufficient in any year to pay principal and interest on the Surface Water Enterprise Obligations, the City would be required to levy a tax sufficient together with other available funds to pay principal of and interest on such debt. See "GROUNDWATER REDUCTION PLAN AND SURFACE WATER FEES" herein. In the past, the City has paid other outstanding certificates of obligation secured by pledges of ad valorem taxes and a subordinate pledge of the City's waterworks and sewer system primarily from ad valorem taxes.
- (2) Projected, includes the Bonds. Does not include debt service on the Surface Water Enterprise Obligations.

* Preliminary, subject to change.

PRELIMINARY OFFICIAL STATEMENT
RELATING TO
\$13,745,000*
CITY OF SUGAR LAND, TEXAS
WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2019

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$13,745,000* City of Sugar Land, Texas Waterworks and Sewer System Revenue Bonds, Series 2019 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance adopted on the date of sale of the Bonds which will authorize the issuance of the Bonds (the "Ordinance"), except as otherwise indicated herein (see "THE BONDS - AUTHORITY FOR ISSUANCE" and "SELECTED PROVISIONS OF THE ORDINANCE").

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City of Sugar Land, Texas (the "City") and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, Hilltop Securities, Inc., Houston, Texas.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Final Official Statement pertaining to the Bonds will be filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Markets Access (EMMA) system. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the City's undertaking to provide certain information on a continuing basis. Capitalized terms used, but not defined herein, will have the meanings ascribed thereto in the Ordinance.

DESCRIPTION OF THE CITY

The City is a municipal corporation, duly organized and existing under the laws of the State of Texas (the "State"), including the City's Home Rule Charter. The City was incorporated in 1959 and first adopted its Home Rule Charter in November 1980. The Charter, provides for a Council-Manager form of government. The Council is composed of a Mayor and six Council Members, two of whom are elected at large and four of whom are elected by district. The Mayor and Council all serve two-year terms. The 2010 Census population for the City was 78,817; while the City estimates its 2019 population at 118,023. The City encompasses 42.85 square miles.

PLAN OF FINANCING

PURPOSE

The Bonds are being issued (i) for collection system rehabilitation, lift station rehabilitation, easement acquisition, wastewater plant and rehabilitation, groundwater plant improvement, well rehabilitation, distribution and water storage tank rehabilitation and (ii) to pay the costs incurred in connection with the issuance of the Bonds.

SOURCES AND USES OF FUNDS

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

Sources of Funds

| | | |
|------------------|----|---|
| Par Amount | \$ | - |
| Accrued Interest | | - |
| Net Premium | | - |
| Total Sources | \$ | - |

Uses of Funds

| | | |
|---|----|---|
| Deposit to the Project Fund | \$ | - |
| Deposit to Debt Service Fund ⁽¹⁾ | | - |
| Initial Purchaser's Discount | | - |
| Costs of Issuance | | - |
| Total Uses of Funds | \$ | - |

(1) Includes accrued interest and rounding amount.

* Preliminary, subject to change.

THE BONDS

DESCRIPTION OF THE BONDS

The Bonds are dated December 1, 2018, and mature, or are subject to mandatory redemption prior to maturity, on August 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable until maturity or prior redemption on each February 15 and August 15, commencing August 15, 2019. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered in the name of and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - BOOK-ENTRY-ONLY SYSTEM" herein.

AUTHORITY FOR ISSUANCE

The Bonds are issued pursuant to the general laws of the State of Texas, particularly Chapter 1502, Texas Government Code and the Ordinance.

SECURITY AND SOURCE OF PAYMENT

The Bonds are special obligations of the City, and together with the City's outstanding waterworks and sewer system revenue bonds and any additional parity bonds which may be issued in the future, are payable from and secured by a first lien on and pledge of the Net Revenues of the System. "Net Revenues" are defined in the Ordinance as all gross revenues remaining after deducting Maintenance and Operation Expenses. "Maintenance and Operation Expenses" are defined in the Ordinance as reasonable and necessary expenses of operation (but only such repairs and extensions as, in the judgment of the governing body of the City, are necessary to keep the system in operation and render adequate service to the City and the inhabitants thereof) and maintenance of the System, including all salaries, labor, materials, repairs and extensions necessary to render efficient service, and all payments under contracts now or hereafter defined as operating expenses by the State Legislature. Depreciation shall never be considered as a Maintenance and Operation Expense.

As additional security, a Reserve Fund is required to be maintained in an amount at least equal to the average annual debt service requirements of the Bonds, the outstanding revenue bonds and any additional bonds issued on a parity with the Bonds. Any additional amount required to be accumulated in the Reserve Fund by reason of the issuance of the Bonds will be funded over a sixty month period in accordance with the provisions of the Ordinance (see "SELECTED PROVISIONS OF THE ORDINANCE").

PLEDGED REVENUES

The Net Revenues of the System are irrevocably pledged for the payment of the Bonds and interest thereon as provided in the Ordinance. The Bonds, the outstanding revenue bonds and any additional bonds based on a parity with the Bonds under the terms of the Ordinance are equally and ratably secured by a first lien on the Net Revenues of the System.

OPTIONAL REDEMPTION

The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2029, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

MANDATORY SINKING FUND REDEMPTION

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

NOTICE OF REDEMPTION

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

DEFEASANCE

The City reserves the right to discharge, defease, redeem or refund the Bonds in any manner now or hereafter permitted by law.

ADDITIONAL BONDS

The City may issue additional obligations payable from the Net Revenues on a parity with the Bonds, subject, however, to complying with certain conditions in the Ordinance. See "SELECTED PROVISIONS OF THE ORDINANCE" for terms and conditions to be satisfied for the issuance of additional bonds. The City does not intend to issue additional parity bonds secured by the Net Revenues in the next 12 months. The City does, however, anticipate issuing approximately \$25 million of certificates of obligation in the next 12 months, which will be secured, in part, by a subordinate lien on the revenues securing the Bonds. (See "DEBT INFORMATION - ANTICIPATED ISSUANCE OF REVENUE BONDS").

BOOK-ENTRY-ONLY SYSTEM

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

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

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered certificates registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Bonds, in the aggregate principal amount of such issue, 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, corporate and municipal debt issues, and money market instrument (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 certificates transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's rating: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

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

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

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or Paying Agent/Registrar on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with certificates held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the City, or Paying Agent/Registrar, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, physical Bond certificates will be printed and delivered to DTC.

USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT

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

EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed physical Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE BONDS - TRANSFER, EXCHANGE AND REGISTRATION" below.

PAYING AGENT/REGISTRAR

The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Principal of the Bonds will be payable to the registered owner at maturity or prior redemption upon presentation at the designated payment office of the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (see "THE BONDS – RECORD DATE FOR INTEREST PAYMENT" herein), or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of, the registered owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday, or day on which the Paying Agent/Registrar is authorized by law or executive order to close, then the date for such payment shall be the next succeeding business day which is not such a Saturday, Sunday, or legal holiday, or day on which the Paying Agent/Registrar is authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

TRANSFER, EXCHANGE, AND REGISTRATION

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate designated amount as the Bonds surrendered for exchange or transfer. See "THE BONDS - BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

RECORD DATE FOR INTEREST PAYMENT

The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month. In the event of a non-payment of interest on a scheduled payment date that continues for thirty (30) days or more, 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 or on behalf of 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 fifteen (15) days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each owner of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

BONDHOLDERS' REMEDIES

The Ordinance does not specify events of default with respect to the Bonds. If the City defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so

rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon on a periodic basis. The Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the City for breach of the Bonds or Ordinance covenants. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods or services to cities. The City is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Act. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W. 3d 427 (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. In its decision, the Court held that since the Local Government Immunity Waiver Act waives governmental immunity in certain breach of contract claims without addressing whether the waiver applies to a governmental function or a proprietary function of a city, the Court could not reasonably read the Local Government Immunity Waiver Act to evidence legislative intent to waive immunity when a city performs a proprietary function.

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, such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the limitations related to bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting the rights of creditors of political subdivisions.

WATERWORKS AND SEWER SYSTEM

GENERAL

The City owns and operates its water supply, storage, and distribution facilities and provides services to approximately 40,000 customers. Wastewater treatment is provided by the Sugar Land Regional Sewerage System Plant and the South Wastewater Treatment Plant (currently operated under contract by the Brazos River Authority). With the annexation of Greatwood and New Territory in December 2017, the City took ownership and operations of the Greatwood and New Territory water and wastewater systems. The City contracted with Si Environmental to operate the Greatwood and New Territory plants from the date of annexation (December 12, 2017) through September 30, 2018. Total daily treatment capacity at the four plants is 17.35 million gallons, and average daily treatment for the year ended September 30, 2018 is 10.75 million gallons.

The City's total water system consists of 576 miles of water mains serving 40,009 distribution connections as of September 30, 2018. The City's water is supplied by 23 groundwater wells and a surface water treatment plant to meet annual water demands of 7.14 billion gallons. Storage capacity is 19.7 million gallons in ground storage tanks and 6.2 million gallons in elevated storage tanks.

For fiscal year ending September 30, 2018, the system had average daily production of 20.1 million gallons and a maximum daily production capacity of 36.219 million gallons.

The City has entered into a contract with the Brazos River Authority (the "BRA") to operate all four wastewater treatment plants beginning October 1, 2018. The annual payments to the BRA and Si Environmental have been recorded in the City Water and Wastewater Fund as operating expenses. Payments during the year ended September 30, 2018 to the BRA amounted to \$1.92 million and to Si Environmental totaled \$0.45 million. Total payments during the year ended September 30, 2019 are expected to be \$3.29 million (including plant rehabilitation).

As of October 1, 2018, the City has outstanding \$17,795,000 Waterworks and Sewer System Revenue Bonds, Series 2012, \$5,810,000 Waterworks and Sewer System Revenue Refunding Bonds, Series 2012A, \$13,285,000 Waterworks and Sewer System Revenue Bonds, Series 2013, \$14,390,000 Waterworks and Sewer System Revenue and Refunding Bonds, Series 2015, \$31,495,000 Waterworks and Sewer System Revenue and Refunding Bonds, Series 2016, and \$19,780,000 Waterworks and Sewer System Revenue Bonds Series 2017 (the "System Parity Bonds").

GROUNDWATER REDUCTION PLAN & SURFACE WATER FEES

To meet the Fort Bend Subsidence District ("FBSD") regulations, the City approved a Groundwater Reduction Plan ("GRP") that outlines the City's planned strategies for meeting the mandated conversion to non-groundwater sources. Under the FBSD regulations, 30% of the City's total water demand must be supplied by sources other than groundwater by 2014 and 60% of the City's water demand must be supplied by sources other than groundwater by 2025. The City constructed a surface water treatment plant ("SWTP") adjacent to Oyster Creek and Gannoway Lake along with other associated projects to implement the phased conversion from groundwater to surface water. A series of projects have been implemented since 2008. The SWTP was constructed for an initial production capacity of 9.0 million gallons per day (MGD) (Phase I), with capability for future expansion to 22.0 MGD (Phase II). The SWTP began delivering water to City customers on November 4, 2013, and the City is currently meeting the 2014 conversion requirements. In order to meet the 2025 conversion requirements, the City will consider options including the expansion of the SWTP and water reuse among other options.

The City has established a Surface Water Enterprise Fund to account for expenses associated with the groundwater reduction efforts. Revenue from groundwater reduction fees paid by utility customers of the City are deposited into this fund from all GRP participants, including City utility customers. The fee is currently \$1.75 per 1,000 gallons pumped. The GRP fee combined with water and sewer user fees will be increased in amounts estimated to be sufficient to pay the debt service on the City's System Parity Bonds, a portion of the City's Combination Tax and Revenue Certificates of Obligation, Series 2016 (the "Series 2016 Certificates") and the General Obligation Refunding Bonds, Series 2017 (the "Series 2017 Bonds" and together with the Series and Series 2016 Certificates, the "Surface Water Enterprise Obligations") and the portion of assumed municipal utility district debt that is allocated to the waterworks and wastewater enterprise system. The Surface Water Enterprise Obligations are secured by a pledge of both ad valorem taxes and a subordinate pledge of net revenues of the City's waterworks and sewer system; however, it is the intention and practice of the City to pay for the Surface Water Enterprise Obligations from such net revenues. Should there be a shortfall in available net revenues, the System Parity Bonds will be paid prior to the Surface Water Enterprise Obligations from net revenues. The City would then be required to levy taxes sufficient with other available funds to pay principal and interest on the Surface Water Enterprise Obligations, but taxes are levied annually in September of each year and become delinquent by February 1, so that the City would need to anticipate the shortfall in order to timely levy taxes. The surface water fund has a general purpose reserve equal to 50% of budgeted expenditures to account for the delay in revenues from increased GRP fee or taxes levied to support the bonds. In the past, the City has paid other outstanding certificates of obligation secured by pledges of ad valorem taxes and a subordinate pledge of the City's waterworks and sewer system primarily from ad valorem taxes.

PUBLIC IMPROVEMENT DISTRICT

A portion of the revenue bonds will go to developer's reimbursement for PID waterworks infrastructure will be repaid by PID assessment. On August 19, 2014, the city of Sugar Land approved resolution No. 14-32 authorizing the creation of the Enclave at River Park Public Improvement District (The "PID"). The PID was created to finance improvements to the Enclave at River Park subdivision an approximately 54 acre single family residential development located along US 59 and accessed through the River Park subdivision. The 2018 taxable value in the PID is \$37,168,985. A portion of the bonds will be supported by an assessment to property owners in the PID for reimbursements paid to the developer in accordance with this agreement.

HISTORICAL WATER CONSUMPTION

| Fiscal Year Ended | Estimated City Population ⁽¹⁾ | Water Usage ⁽²⁾ | | Wastewater Average Daily Treatment ⁽²⁾ | Net Revenues Available For Debt Service | City Water and Sewer Revenue | Coverage Of Debt |
|-------------------------|--|--------------------------------|--------------------------------|--|---|---|---------------------|
| | | Average Daily Production | Maximum Daily Production | | | Bond Ensuing Years' Debt Service Requirements ⁽³⁾ | |
| 9/30 | | | | | | | |
| 2014 | 86,495 | 15.470 | 29.970 | 8.02 | \$ 25,739,419 | \$ 8,566,394 | 3.00x |
| 2015 | 86,972 | 15.350 | 25.840 | 8.65 | 22,430,601 | 8,881,591 | 2.53x |
| 2016 | 87,504 | 15.510 | 31.000 | 8.59 | 25,063,673 | 9,594,044 | 2.61x |
| 2017 | 87,730 | 15.990 | 30.787 | 8.49 | 20,243,437 | 10,707,194 | 1.89x |
| 2018 | 118,023 | 20.100 | 36.200 | 10.75 | 28,966,320 | 10,540,023 | 2.75x |

(1) Source: City of Sugar Land.

(2) Millions of gallons.

(3) Includes the Bonds and excludes the Surface Water Enterprise Obligations. Preliminary, subject to change.

TEN LARGEST WATER CUSTOMERS (BASED ON GALLONS CONSUMED) AS OF SEPTEMBER 30, 2018

| Customer | Fiscal 2018 Water Usage |
|---------------------------|----------------------------|
| | In Gallons |
| Ondeo Nalco Energy | 119,023,000 |
| Crown Cork & Seal | 68,631,000 |
| Methodist Hospital | 63,234,400 |
| Memorial Hermann Hospital | 27,797,000 |
| Sugar Land Marriott | 21,943,000 |
| Schlumberger | 19,626,900 |
| 1800 Austin Pkwy LP | 19,039,000 |
| 225 Fluor Daniel Dr LP | 17,933,800 |
| 2222 Settlers Way LP | 13,389,500 |
| St Lukes Sugar Land | 13,292,800 |
| | <u>383,910,400</u> |

MONTHLY WATER RATES (EFFECTIVE JANUARY 1, 2014)

Residential users must pay consumption charges based on an increasing block volume rate for each 1,000 gallons of water, or portion thereof, as follows:

Commercial users must pay consumption charges based on a uniform volume rate of \$1.17 for each 1,000 gallons of water, or portion thereof.

In addition to other charges, each residential and commercial user must pay a service charge based on water meter size as follows:

| <u>Meter Size (Inches)</u> | <u>Water Service Charge</u> |
|----------------------------|---------------------------------|
| 5/8 & 3/4 | \$ 7.98 |
| 1 | 12.46 |
| 1 1/2 | 33.11 |
| 2 | 51.54 |
| 3 | 111.26 |
| 4 | 307.77 |
| 6 | 602.51 |
| 8 | 752.65 |

Landscape users must pay usage charges based on a uniform seasonal volume rate for each 1,000 gallons of water, or portion thereof, as follows:

| <u>Landscape Meters - Seasonal Rates</u> | <u>Rate (per 1,000 gal)</u> |
|--|-----------------------------|
| Winter (Oct - Apr) | \$1.16 |
| Summer (May - Sept) | \$1.46 |

MONTHLY WASTEWATER RATES (EFFECTIVE AS OF JANUARY 1, 2014)

Water and wastewater rates shall include a uniform volume charge of \$2.90 for each 1,000 gallons of water, or portion thereof, provided through the meter and a service charge based on the customer's water meter size as follows:

| <u>Meter Size (Inches)</u> | <u>Wastewater Service Charge</u> |
|----------------------------|--------------------------------------|
| 5/8 & 3/4 | \$ 12.40 |
| 1 | 20.11 |
| 1 1/2 | 55.75 |
| 2 | 86.97 |
| 3 | 188.54 |
| 4 | 525.43 |
| 6 | 1,033.78 |
| 8 | 1,291.80 |

Residential customers are billed for monthly usage based on the average of January and February consumption. Commercial users are charged wastewater based on 100% of water usage.

MONTHLY SURFACE WATER RATES (EFFECTIVE AS OF JANUARY 1, 2014)

In addition to other volume charges, residential, commercial and landscape customers pay \$1.88 per 1,000 gallons based on billed consumption for surface water. Participants in the City's Groundwater Reduction Plan located outside the City's corporate boundaries and participants located within the City's corporate boundaries, including private well owners and homeowners associations, pay a pumpage fee of \$1.75 per 1,000 gallons based on pumpage for surface water conversion. Municipal Utility Districts ("MUDs") served by the City's water system outside the City limits pay a surface water fee of \$2.26 per 1,000 gallons for surface water. MUDs also pay \$1.04 and \$1.46, per 1,000 gallons of water and wastewater, respectively.

CITY WATER AND WASTEWATER FUND OPERATING STATEMENT

The following statement sets forth in condensed form the historical results of the operation of the City's Water and Wastewater System. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation and operating transfers.

| | Fiscal Year Ended September 30, | | | | |
|--|---------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2018 ⁽¹⁾ | 2017 | 2016 | 2015 | 2014 |
| Revenues: | | | | | |
| Charges for Services | \$ 46,310,283 | \$ 42,519,997 | \$ 46,140,497 | \$ 43,037,218 | \$ 44,302,320 |
| Interest on Investments | 506,644 | 530,291 | 557,944 | 506,171 | 108,999 |
| | - | - | - | - | - |
| Miscellaneous | 1,445,393 | 19,913 | 52,323 | 57,116 | 50,210 |
| Total Revenues | <u>\$ 48,262,320</u> | <u>\$ 43,070,201</u> | <u>\$ 46,750,764</u> | <u>\$ 43,600,505</u> | <u>\$ 44,461,529</u> |
| Operating Expenses: | | | | | |
| Personnel Services | \$ 1,567,001 | \$ 5,508,150 | \$ 5,164,132 | \$ 4,475,827 | \$ 3,787,419 |
| Supplies and Materials | 901,658 | 248,284 | 216,851 | 270,725 | 307,456 |
| Contractual Services | 10,330,843 | 9,477,236 | 9,443,131 | 9,322,953 | 5,804,906 |
| Repairs and Maintenance | 5,033,978 | 6,555,794 | 5,980,763 | 6,157,559 | 4,892,984 |
| Interfund Transfer to General Fund | - | - | - | 107,022 | 3,170,324 |
| Other Expenses | 1,462,520 | 1,037,300 | 882,211 | 835,818 | 759,021 |
| Total Operating Expenses | <u>\$ 19,296,000</u> | <u>\$ 22,826,764</u> | <u>\$ 21,687,088</u> | <u>\$ 21,169,904</u> | <u>\$ 18,722,110</u> |
| Net Revenue Available for Debt Service | <u>\$ 28,966,320</u> | <u>\$ 20,243,437</u> | <u>\$ 25,063,676</u> | <u>\$ 22,430,601</u> | <u>\$ 25,739,419</u> |
| Debt Service Requirements | \$ 10,540,023 ⁽²⁾ | \$ 10,707,194 | \$ 9,594,044 | \$ 8,881,591 | \$ 8,566,394 |
| Coverage | 2.75x | 1.89x | 2.61x | 2.53x | 3.00x |
| Surplus Revenue Available | \$ 18,426,297 | \$ 9,536,243 | \$ 15,469,632 | \$ 13,549,010 | \$ 17,173,025 |
| Water Connections | 40,009 | 30,292 | 30,049 | 29,117 | 28,923 |
| Wastewater Connections | 37,688 | 28,432 | 28,214 | 27,371 | 27,177 |

(1) Unaudited; Preliminary information provided by City staff.

(2) Includes the bonds.

COMPUTATION OF SELF-SUPPORTING WATERWORKS AND SEWER SYSTEM DEBT

Waterworks and Sewer System Self-Supporting Debt

| | |
|--|---------------------|
| Revenue Available for Debt Service from Waterworks and Sewer System, Fiscal Year Ended 9-30-18 | \$ 28,966,320 |
| Less: Revenue Bonds Requirements, 2019 Fiscal Year | <u>9,839,669</u> |
| Balance Available for Other Purposes | \$ 19,126,651 |
| System General Obligation Bond Requirements, 2019 Fiscal Year | <u>10,126,947</u> |
| Balance | <u>\$ 8,999,704</u> |
| Percentage of System General Obligation Bonds, Self-Supporting | 100.00% |

COVERAGE AND FUND BALANCES

| | |
|---|------------------------------|
| City System Net Revenue (September 30, 2018)..... | \$ 28,966,320 |
| 2019 Principal and Interest Requirements..... | \$ 10,540,023 ⁽¹⁾ |
| Coverage of 2017 Requirements by September 30, 2018 Net Revenues | 2.75x |
| Average Annual Principal and Interest Requirements (2019-2039)..... | \$ 7,091,982 ⁽¹⁾ |
| Coverage of Average Requirements by September 30, 2018 Net Revenue from Operations..... | 4.08x |
| Maximum Future Principal and Interest Requirements (2020)..... | \$ 10,789,225 ⁽¹⁾ |
| Coverage of Maximum Requirements by September 30, 2018 Net Revenue from Operations..... | 2.68x |
| Waterworks and Sewer System Revenue Bonds Outstanding September 30, 2018..... | \$ 98,510,000 ⁽¹⁾ |
| Unrestricted Cash and Investments as of September 30, 2018..... | \$ 19,450,434 ⁽²⁾ |

(1) Projected, includes the Bonds. Does not include debt service on the Surface Water Enterprise Obligations.

(2) Excludes Restricted and Capital Projects Funds.

DEBT INFORMATION

PRO-FORMA WATERWORKS AND SEWER SYSTEM REVENUE DEBT SERVICE REQUIREMENTS

| The Bonds ⁽¹⁾ | | | Grand | Percentage |
|--------------------------|---------------------|----------------------|-----------------------|----------------------|
| Principal | Interest | Total | Total Debt Service | of Principal Retired |
| \$ 405,000 | \$ 295,354 | \$ 700,354 | \$ 10,540,023 | |
| 475,000 | 484,156 | 959,156 | 10,789,225 | |
| 495,000 | 469,906 | 964,906 | 10,500,575 | |
| 515,000 | 450,106 | 965,106 | 10,513,875 | |
| 535,000 | 429,506 | 964,506 | 10,193,575 | 30.10% |
| 545,000 | 408,106 | 953,106 | 10,189,425 | |
| 570,000 | 386,306 | 956,306 | 10,221,600 | |
| 590,000 | 363,506 | 953,506 | 10,224,313 | |
| 610,000 | 339,906 | 949,906 | 9,865,288 | |
| 630,000 | 315,506 | 945,506 | 9,869,363 | 64.45% |
| 660,000 | 290,306 | 950,306 | 8,693,450 | |
| 675,000 | 270,506 | 945,506 | 6,776,400 | |
| 690,000 | 250,256 | 940,256 | 6,547,150 | |
| 715,000 | 228,694 | 943,694 | 4,826,638 | |
| 745,000 | 204,563 | 949,563 | 4,833,719 | 88.37% |
| 765,000 | 178,488 | 943,488 | 3,708,531 | |
| 765,000 | 151,713 | 916,713 | 3,681,438 | |
| 795,000 | 123,981 | 918,981 | 2,795,456 | |
| 820,000 | 95,163 | 915,163 | 2,317,588 | |
| 850,000 | 65,438 | 915,438 | 915,438 | |
| 895,000 | 33,563 | 928,563 | 928,563 | 100.00% |
| <u>\$ 13,745,000</u> | <u>\$ 5,835,029</u> | <u>\$ 19,580,029</u> | <u>\$ 148,931,630</u> | |

(1) Interest on the Bonds has been estimated for the purpose of illustration. Preliminary, subject to change.

SURFACE WATER FUND DEBT SERVICE REQUIREMENTS

| Fiscal Year | Currently Outstanding Surface Water Enterprise Obligations ⁽¹⁾ | | | % of Principal |
|-------------|--|--------------|--------------|-------------------|
| End 9/30 | Principal | Interest | Debt Service | Retired |
| 2019 | \$ 2,250,000 | \$ 3,414,569 | \$ 5,664,569 | |
| 2020 | 2,340,000 | 3,345,094 | 5,685,094 | |
| 2021 | 2,290,000 | 3,274,994 | 5,564,994 | |
| 2022 | 2,400,000 | 3,180,669 | 5,580,669 | |
| 2023 | 2,540,000 | 3,057,869 | 5,597,869 | 14.04% |
| 2024 | 2,685,000 | 2,927,969 | 5,612,969 | |
| 2025 | 2,825,000 | 2,790,994 | 5,615,994 | |
| 2026 | 2,965,000 | 2,647,044 | 5,612,044 | |
| 2027 | 3,110,000 | 2,496,844 | 5,606,844 | |
| 2028 | 3,255,000 | 2,340,269 | 5,595,269 | 31.67% |
| 2029 | 3,420,000 | 2,175,519 | 5,595,519 | |
| 2030 | 3,590,000 | 2,002,019 | 5,592,019 | |
| 2031 | 3,765,000 | 1,819,994 | 5,584,994 | |
| 2032 | 3,945,000 | 1,648,394 | 5,593,394 | |
| 2033 | 4,110,000 | 1,488,269 | 5,598,269 | 54.04% |
| 2034 | 4,270,000 | 1,321,669 | 5,591,669 | |
| 2035 | 4,445,000 | 1,148,394 | 5,593,394 | |
| 2036 | 4,625,000 | 968,069 | 5,593,069 | |
| 2037 | 4,705,000 | 782,019 | 5,487,019 | |
| 2038 | 4,905,000 | 589,819 | 5,494,819 | 81.31% |
| 2039 | 5,080,000 | 412,344 | 5,492,344 | |
| 2040 | 5,245,000 | 251,016 | 5,496,016 | |
| 2041 | 5,410,000 | 84,531 | 5,494,531 | 100.00% |
| | ##### | \$44,168,366 | ##### | |

- (1) The Surface Water Enterprise Obligations are secured by a pledge of both ad valorem taxes and a subordinate pledge of net revenues of the waterworks and sewer system; however, it is the intention of the City to pay for them from net revenues derived from the City's waterworks and sewer system after the payment of senior lien obligations such as the Bonds. Should waterworks and sewer system net revenues be insufficient in any year to pay principal and interest on the Certificates, the City would be required to levy a tax sufficient together with other available funds to pay principal of and interest on such debt.

AUTHORIZED BUT UNISSUED REVENUE BONDS

The City has no voted but unissued revenue bonds, as State law does not require the City to approve its revenue bonds through election.

ANTICIPATED ISSUANCE OF REVENUE BONDS

The City does not anticipate the issuance of Additional Parity Bonds within the next twelve (12) months. The City does, however, anticipate issuing approximately \$22 million of certificates of obligation in the next twelve 12 months, which will be secured, in part, by a subordinate and limited pledge of the revenues securing the Bonds, not to exceed \$10,000.

PENSION FUND

The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System ("TMRS"), a State-wide pension plan. The City makes monthly contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see City of Sugar Land Comprehensive Annual Financial Report-Note 9).

OTHER POST-EMPLOYMENT BENEFITS

In addition to providing pension benefits through the TMRS, the City has opted to provide eligible retired employees with the following post-employment benefits:

- Eligible retirees may purchase health insurance from the City's healthcare provider at the City's cost to cover current employees.
- Eligible retirees may purchase health insurance for dependents from the City's healthcare provider at the City's cost to cover current dependents of employees if the dependents were covered by City insurance when the employee retired.

The City recognizes its share of the costs of providing these benefits when paid, on a "pay-as-you-go" basis. These payments are budgeted annually. The amount received for the fiscal year ending September 30, 2018 is \$95,067. The appropriation for the fiscal year ending September 30, 2019 is \$90,787. At September 30, 2018, there were 206 retirees, 11 of whom participated in the retiree health care coverage. (For more detailed information concerning the retiree health care plan, see APPENDIX B, "EXCERPTS FROM THE CITY OF SUGAR LAND, TEXAS ANNUAL FINANCIAL REPORT" – Note # 9.)

(For more detailed information concerning the retiree health care plan, see APPENDIX B, "EXCERPTS FROM THE CITY OF SUGAR LAND, TEXAS COMPREHENSIVE ANNUAL FINANCIAL REPORT" – Note # 9.)

MUNICIPAL UTILITY DISTRICTS WITHIN THE CITY

The City has entered into utility agreements with six municipal utility districts which are within the City's boundaries: Burney Road Municipal Utility District, Fort Bend County Municipal Utility District Nos. 136, 137, 138 and 139 in Telfair and Fort Bend Municipal Utility District No. 10 in Lake Pointe. Pursuant to the agreements, the districts are to acquire and construct water, sanitary sewer, and drainage facilities to serve the area within the districts and may issue bonds to finance such facilities. Such agreements provide the following:

- (1) As water, sanitary sewer, and drainage facilities are acquired and constructed, the districts will transfer the facilities to the City, reserving a security interest therein for the purpose of securing performance of the City under the agreements. At such time as the bonds of the districts are discharged, the districts will release the security interest and the City will own the improvements.
- (2) The water and wastewater rates charged by the City will be equal and uniform to those charged other similar users within the City, with all revenues belonging exclusively to the City.
- (3) The City has agreed to pay the districts a tax rebate of the ad valorem taxes collected on land and improvements within the districts. The rebates for the year ended September 30, 2018 were approximately \$3,778,088. Estimated payments for the period ending September 30, 2019 budget are \$4,316,554.

The City has entered into agreements with various municipal utility districts, Fort Bend County and the City's extraterritorial jurisdiction to provide fire services within the developments of Greatwood, Tara, New Territory, and Riverstone subdivisions. The districts pay a fee for these services. In addition, Fort Bend County reimburses the City for calls made into the unincorporated areas of the county. The City estimated to have received \$1,401,327 from the participating municipal utility districts and Fort Bend County in the year ending September 30, 2018 in connection with these agreements.

On December 12, 2017, nine (9) municipal utility districts in the City's extraterritorial jurisdiction were annexed and dissolved.

SELECTED PROVISIONS OF THE ORDINANCE

The Ordinance authorizes the issuance and sale of the Bonds and prescribes terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the City. Set forth below is a summary of certain provisions of the Ordinance. Such summary is not a complete description of the entire Ordinance and is qualified by reference to the Ordinance, copies of which are available from Hilltop Securities, Inc., the City's Financial Advisor, upon request.

DEFINITIONS

"Additional Parity Bonds" means the additional parity revenue bonds permitted to be issued by the City pursuant to Section 6.1 of the Ordinance.

"Business Day" means any day which is not a Saturday, Sunday, or a day on which the Paying Agent/Registrar is authorized by law or executive order to close.

"Outstanding Parity Bonds" means the outstanding bonds of the City's Waterworks and Sewer System Revenue Bonds, Series 2012, the City's Waterworks and Sewer System Revenue Refunding Bonds, Series 2012A, the City's Waterworks and Sewer System Revenue Bonds, Series 2013, the City's Waterworks and Sewer System Revenue and Refunding Bonds, Series 2015, the City's Waterworks and Sewer System Revenue and Refunding Bonds, Series 2016, the City's Waterworks and Sewer System Revenue Bonds, Series 2017 and the Bonds.

"Owner" or "Registered Owner", when used with respect to any Bond means the person or entity in whose name such Bond is registered in the Register. Any reference to a particular percentage or proportion of the Owners means the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Bonds then outstanding under the Ordinance, exclusive of Bonds held by the City.

"Parity Bonds" means the Bonds, the Outstanding Parity Bonds, and each series of Additional Parity Bonds from time to time hereafter issued, but only to the extent such Parity Bonds remain outstanding within the meaning of the Ordinance.

"Reserve Fund Requirement" means the average annual principal and interest requirements on the Parity Bonds, which may be determined and redetermined each year by the City but in no event less frequently than upon the issuance of each series of Parity Bonds.

"Reserve Fund Surety Policy" means a surety bond, insurance policy, letter of credit, or other similar instrument issued by a financial institution, provided that the claims paying ability of such issuer is rated in one of the highest category of ratings by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, and Moody's Investors Service, Inc.

"Special Project" means, to the extent permitted by law, any waterworks or sanitary sewer system property, improvement or facility declared by the City not to be part of the System and substantially all of the costs of acquisition, construction, and installation of which are paid from proceeds of a financing transaction other than the issuance of bonds payable from ad valorem taxes or Net Revenues of the System, and for which all maintenance and operation expenses are payable from sources other than revenues of the System, but only to the extent that and for so long as all or any part of the revenues or proceeds of which are or will be pledged to secure the payment or repayment of such costs of acquisition, construction and installation under such financing transaction.

"System" means all properties, facilities, improvements, equipment, interests, and rights constituting the waterworks and sanitary sewer system of the City, including, without limitation, all water production, treatment, storage and distribution facilities and all wastewater collection, transportation and treatment facilities formerly owned by any water district and assumed by the City upon annexation and dissolution of said district(s), and including all future extensions, replacements, betterments, additions, and improvements to the System, but excluding any Special Project.

RATES AND CHARGES

So long as any Parity Bonds remain outstanding, the City shall fix, charge and collect rates and charges for the use and services of the System which are fully sufficient to produce Net Revenues in each fiscal year at least equal to 110% of the principal and interest requirements scheduled to occur in such fiscal year on all Parity Bonds then outstanding plus an amount equal to the sum of all deposits required to be made to the Reserve Fund in such fiscal year; but in no event shall Net Revenues ever be less than the amount required to maintain the Interest and Sinking Fund and the Reserve Fund as provided in the Ordinance, and, to the extent that funds for such purpose are not otherwise available, to pay all other outstanding obligations payable from the Net Revenues of the System as and when the same become due.

The City will not grant or permit any free service from the System except for public buildings and institutions operated by the City.

SPECIAL FUNDS

The following special funds are approved and confirmed and such funds shall be maintained and accounted for as hereinafter provided, so long as any Parity Bonds remain outstanding:

- (a) Waterworks and Sewer System Revenue Bonds Revenue Fund (the "Revenue Fund");
- (b) Waterworks and Sewer System Revenue Bonds Interest and Sinking Fund (the "Interest and Sinking Fund"); and
- (c) Waterworks and Sewer System Revenue Bonds Reserve Fund (the "Reserve Fund").

The Revenue Fund shall be maintained as a separate account on the books of the City. The Interest and Sinking Fund and the Reserve Fund shall be maintained at an official depository bank of the City separate and apart from all other funds and accounts of the City and shall constitute trust funds which shall be held in trust for the benefit of the Owners of the Parity Bonds and the proceeds of which (except for interest income, which shall be transferred to the Revenue Fund) shall be and are hereby pledged to the payment of the Parity Bonds. All of the Funds named above shall be used solely as provided in the Ordinance so long as any Parity Bonds remain outstanding.

FLOW OF FUNDS

All Gross Revenues of the System shall be deposited as collected into the Revenue Fund. Money from time to time on deposit to the credit of the Revenue Fund shall be applied as follows in the following order of priority:

- (a) First, to pay Maintenance and Operation Expenses;
- (b) Second, to make all deposits into the Interest and Sinking Fund required by the Ordinance and any ordinance authorizing the issuance of Additional Parity Bonds;
- (c) Third, to make all deposits into the Reserve Fund required by the Ordinance and any ordinance authorizing the issuance of Additional Parity Bonds; and
- (d) Fourth, for any lawful purpose.

Whenever the total amounts on deposit to the credit of the Interest and Sinking Fund and the Reserve Fund shall be equivalent to the sum of the aggregate principal amount of all outstanding Parity Bonds plus the average aggregate of all interest accrued and to accrue thereon, no further payments need be made into the Interest and Sinking Fund or the Reserve Fund.

INTEREST AND SINKING FUND

On or before the last Business Day of each month so long as any Parity Bonds remain outstanding, after making all required payments and provision for payment of Maintenance and Operation Expenses, there shall be transferred into the Interest and Sinking Fund from the Revenue Fund

- (i) such amounts, in approximately equal monthly installments, as will be sufficient to accumulate the amount required to pay the interest scheduled to become due on the Parity Bonds on the next interest payment date; and
- (ii) such amounts, in approximately equal monthly installments, as will be sufficient to accumulate the amount required to pay the next maturing principal of the Parity Bonds, including the principal amounts of, and any redemption premium on, any Parity Bonds payable as a result of the exercise or operation of any optional or mandatory redemption provision contained in the Ordinance or in any ordinance authorizing the issuance of Additional Parity Bonds.

Money deposited to the credit of the Interest and Sinking Fund shall be used solely for the purpose of paying principal (at maturity or prior redemption or to purchase Parity Bonds issued as term bonds in the open market to be credited against mandatory redemption requirements), interest and any redemption premium on the Parity Bonds, plus all bank charges and other costs and expenses relating to such payment. On or before each principal and/or interest payment date on the Parity Bonds, the City shall transfer from the Interest and Sinking Fund to the paying agent an amount equal to the principal, interest and any redemption premium payable on the Parity Bonds on such date, together with an amount equal to all bank charges and other costs and expenses relating to such payment. The paying agents shall destroy all paid Parity Bonds and shall provide the City with appropriate certificates of destruction.

RESERVE FUND

Unless the Reserve Fund is fully funded, on or before the last Business Day of each month so long as any Parity Bonds remain outstanding, after making all required payments and provision for payment of Maintenance and Operation Expenses, and after making the required transfers into the Interest and Sinking Fund, there shall be transferred into the Reserve Fund from the Revenue Fund such amounts, in approximately equal monthly installments, as shall be required so that the Reserve Fund shall contain, in no more than sixty (60) months after the issuance of each issue of Parity Bonds, money and investments in an aggregate amount equal to the average annual principal and interest requirements on all Parity Bonds then outstanding. After

such amount has accumulated in the Reserve Fund and so long thereafter as the Reserve Fund contains such amount, no further deposits shall be required to be made into the Reserve Fund, and any excess amounts may be transferred to the Revenue Fund. But if and whenever the balance in the Reserve Fund is reduced below such amount, monthly deposits into such Fund shall be resumed and continued in amounts at least equal to one-sixtieth (1/60th) of the average annual principal and interest requirements on the Parity Bonds until the Reserve Fund has been restored to such amount. The Reserve Fund shall be used to pay the principal of and interest on the Parity Bonds at any time when there is not sufficient money available in the Interest and Sinking Fund for such purpose and it may be used finally to pay and retire the last Parity Bonds to mature or be redeemed. At the option of the City, all or any part of the amount required to be on deposit in the Reserve Fund may be satisfied through the purchase of a Reserve Fund Surety Policy.

ADDITIONAL BONDS

The City reserves the right to issue, for any lawful purpose (including the refunding of any previously issued Parity Bonds or any other bonds or obligations of the City issued in connection with or payable from the revenues of the System), one or more series of Additional Parity Bonds payable from and secured by a first lien on the Net Revenues of the System on a parity with the Bonds, the outstanding Parity Bonds and any previously issued Additional Parity Bonds; provided, however, that no Additional Parity Bonds may be issued unless:

- (a) The Additional Parity Bonds mature on, and interest is payable on, the same days of the year as the Bonds;
- (b) The Interest and Sinking Fund and the Reserve Fund each contains the amount of money then required to be on deposit therein;
- (c) For either the preceding fiscal year or a twelve (12) consecutive calendar month period ending no more than 90 days prior to adoption of the ordinance authorizing such Additional Parity Bonds, Net Revenues were equal to at least 125% of the average annual principal and interest requirements on all Parity Bonds that will be outstanding after the issuance of the series of Additional Parity Bonds then proposed to be issued, as certified by the City's Director of Finance or Chief Accountant or by an independent certified public accountant or firm of independent certified public accountants; or
- (d) If the City cannot meet the test described in (c) above, but a change in the rates and charges applicable to the System becomes effective at least sixty (60) days prior to the adoption of the ordinance authorizing Additional Parity Bonds and the City's Director of Finance or Chief Accountant certifies that, had such change in rates and charges been effective for the preceding fiscal year or 12 consecutive calendar month period ending no more than ninety (90) days prior to adoption of said ordinance, the Net Revenues for such period would have met the test described in (c) above.

THE CITY

GOVERNMENTAL STRUCTURE

The City was incorporated in 1959 and adopted a home rule charter in November 1980. The City operates under a Council-Manager form of government. The City Council consists of a Mayor and six (6) council members, all of whom are elected for two year terms. The Mayor and two Council members are elected in even numbered years and four Council members are elected in odd numbered years. The Mayor and two Council members are elected at large, and the remaining four are elected by each district.

The Mayor presides at City Council meetings and is entitled to vote on all matters considered by City Council. Powers of the City are vested in the City Council and include appointment of the City Manager, boards and commissions, adoption of the budget, authorization of bond issues, and adoption of ordinances and resolutions as deemed necessary, desirable and beneficial to the City. The City Manager is responsible for administrative and day to day operations of the City.

LOCATION OF THE CITY

The City is located in Fort Bend County and encompasses 42.85 square miles.

SERVICES PROVIDED BY THE CITY

The City provides water, sanitary sewer, airport, and park services. Additionally, it provides local law enforcement, fire/EMS service, solid waste collection, and building inspection; maintains its storm drainage facilities, bridges and streets; and operates community recreation facilities.

The City does not operate hospitals, a school system, transit services or a higher education system and does not spend City funds in providing welfare. Public schools within the boundaries of the City are administered by the Fort Bend Independent School District and Lamar Consolidated Independent School District, which have independent taxing authority.

HURRICANE HARVEY

The Houston area sustained widespread rain damage and flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four (4) days. The City is located approximately fifty-three (53) miles from the Texas Gulf Coast and along the Brazos River. Land located in this area is susceptible to high winds and heavy rain caused by hurricanes, tropical storms and other tropical disturbances. The properties on the south side of the City adjacent to the River and near the flood plain are susceptible to flooding from the Brazos River when it reaches major flood stage. Most properties in the City are protected from flooding from the Brazos River by levees, which are operated and maintained by various Levee Improvement Districts (LIDs). The City of Sugar Land has no authority or responsibility to operate, maintain or regulate the LIDs.

According to the City, the City did not sustain any significant damage and there was no interruption of water and sewer service. Further, according to the City, the only flood damage that occurred was from rainfall that occurred once the LIDs closed their outfall structures to the Brazos River after it reached flood stage, with fewer than 250 homes and fewer than ten (10) commercial properties within the City that experienced flooding or other significant damage. The City requested reappraisal of flood damaged properties from the Fort Bend Central Appraisal District and anticipates a minimal loss of tax revenue from the reappraisal. The City incurred overtime expenses of approximately \$1.1 million. There was minor damage to City facilities. Damages to City facilities include water damage to some buildings and utility systems, roadway damages from erosion and damage to irrigation systems in city rights of way and parks. Total expenditures due to the storm were approximately \$1.5 million (including personnel cost and debris removal). Reimbursement is expected from FEMA on a large portion of this amount.

Hurricane Harvey could have an adverse impact on the Houston region's economy, including an impact on business activity and development in the region. However, the City predicts that Hurricane Harvey will not have a negative impact on the assessed value of homes and commercial improvements within the City and very little impact on the new home and retail development within the City.

PERIODIC FLOODING

The City of Sugar Land is located in the Texas Gulf Coastal plains. The City has a relatively flat topography and a humid subtropical climate. Two potential flooding sources are located within the City limits. The Brazos River is located to the South of the City, while Oyster Creek crosses the City from northwest to southeast on the north side of Highway 6.

Within the City limits, there are nine (9) LIDs, which own and operate several important drainage channels and detention ponds. The LIDs also own and operate the levees and pump stations that protect the southern section of the City from flooding mainly from the Brazos River. The North section of the City is not protected by levees, but the majority of the neighborhoods are outside the special flood hazard areas.

Due to its location, the City is affected by rain events, tropical storms and hurricanes, such as Hurricane Harvey. Certain areas of the City are subject to periodic flooding as a result of severe storm events. Some neighborhoods within the City have experienced severe street ponding during severe tropical storms.

The City of Sugar Land participates in the National Flood Insurance Program administered by the Federal Emergency Management Agency ("FEMA"). Communities participating in the National Flood Insurance Program are required by FEMA to adopt restrictions on development in designated flood-prone areas. In exchange, the National Flood Insurance Program makes federally subsidized flood insurance available to property owners located in the participating communities.

Given the increased development and urbanization within Fort Bend County and the City of Sugar Land, FEMA periodically updates and revises its maps designating the areas of the County that are subject to special flood hazards. Areas of the City protected by levees are considered to be outside the flood-prone area.

FINANCIAL ACCOUNTING

The accounts of the City are organized on the basis of funds, each of which constitutes a separate entity for accounting purposes. The Statement of Net Assets and the Statement of Activities are the government wide statements and report information about the City as a whole. The most significant area of the fund accounting basis is the General Fund, which accounts for all revenues and expenditures of the City not accounted for in the various enterprise funds or the other funds maintained by the City. Other than ad valorem taxes, the primary sources of General Fund revenue include sales and use taxes, franchise fees, and miscellaneous sources, such as fines, penalties, licenses, fees, interest income from investments and other taxes. The Enterprise Funds consist of the Water and Wastewater Fund, the Airport Fund, and the Solid Waste Fund (collectively, the "Enterprise Funds"). The GASB 34 entity-wide statements reflect full accrual. For a description of the accrual methods and the reporting entity definition, see Note 1 of the notes to the Financial Statements in Appendix B.

Other funds maintained by the City are the following: (i) the Special Revenue Funds, including expendable trust funds; (ii) the Internal Service Funds; (iii) the Debt Service Funds; and (iv) the Capital Projects Funds.

BUDGETING

Annual appropriated budgets are adopted for the General, Special Revenue, and Debt Service Funds using the same basis of accounting as for financial reporting. Unencumbered appropriations lapse at the end of the fiscal year.

Expenditures may not legally exceed budgeted appropriations at the department level. Expenditure requests which would require an increase in total budgeted appropriations must be approved by City Council through a formal budget amendment. At any time in the fiscal year, the City Council may make emergency appropriations to meet a pressing need for public expenditure in order to protect the public health, safety, or welfare. The City Council has the power to transfer any unencumbered funds allocated by the budget to one activity, function, or department, to another activity, function, or department, to re-estimate revenues and expenditures, and to amend the budget.

Management has the power to transfer available funds allocated by the budget from one function or activity to another function or activity within the same department.

In cooperation with the department heads of the City and the Budget Office, the City Manager prepares an annual budget for all funds for the ensuing fiscal year, in a form and system deemed desirable by the City Manager. The City Manager shall submit to the Council, for its review, consideration and revision, both a letter describing the proposed new budget, as well as a balanced budget for the forthcoming fiscal year, not later than sixty (60) days prior to the end of the current fiscal year. The budget, as adopted, must set forth the appropriations for services, functions and activities of the various City departments and agencies, and shall meet all fund requirements provided by law and required by bond covenants.

INVESTMENTS

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

LEGAL INVESTMENTS

Available City funds are invested as 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. Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) 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 that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) 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 (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (12) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that have a dollar weighted average stated maturity of ninety (90) days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (13) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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 may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two (2) years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than ten (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 include a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each 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, the City's 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 City's investment officers must submit an investment report to the Board of Trustees detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest City funds without express written authority from the City Council.

ADDITIONAL PROVISIONS

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

CURRENT INVESTMENTS

As of September 30, 2018, the City's investable funds were invested in the following categories:

| | Par Value | Book Value | Market Value |
|-------------|-----------------------|-----------------------|-----------------------|
| Cash/ Sweep | \$ 40,706,686 | \$ 40,706,686 | \$ 40,706,686 |
| TexPool | 6,879,411 | 6,879,411 | 6,879,411 |
| TexStar | 12,588,487 | 12,588,487 | 12,588,487 |
| CD's | 7,451,000 | 7,451,000 | 7,416,967 |
| Agencies | 92,000,000 | 91,967,385 | 91,255,878 |
| | <u>\$ 159,625,584</u> | <u>\$ 159,592,968</u> | <u>\$ 158,847,428</u> |

TexPool is a local government investment pool under the control of the Texas Comptroller of Public Accounts. Investment management and customer service are outsourced by the Comptroller. The pool's investment objectives include achieving a stable net asset value of \$1.00 per share. Daily investment or redemption of funds is allowed by the participants.

TexSTAR is a local government investment pool provides participant services and marketing for the pool. TexSTAR currently maintains a "AAAm" rating from Standard & Poor's and has an investment objective of achieving and maintaining a stable net asset value of \$1.00 per share. Daily investments or redemptions of funds is allowed by the participants.

ANNEXATION POLICY

The City has expanded its geographic boundaries and its tax base through the annexation of contiguous unincorporated areas within the extraterritorial jurisdiction of the City. Upon annexation of a utility district by the City, Texas law generally requires that the City (1) take over all properties and assets of the district, (2) assume all debts, liabilities and obligations of the district, and (3) perform all functions and services of the district. When the City assumes district bonds or other obligations payable in whole or in part from ad valorem taxes, Texas law requires the City to levy and collect ad valorem taxes on all taxable property within the City in amounts sufficient to pay the principal of and interest on such assumed bonds and obligations. Under existing law, neither the annexation of districts nor the assumption of their outstanding bonds or other obligations requires voter authorization.

The City has adopted an annexation policy to consider general issues which may impact the City prior to the annexation of any area. The annexation policy requires a detailed financial analysis to be prepared for review by the City Council. Public information is provided to both the citizens of the City as well as the citizens of the areas proposed for annexation, and opportunity is provided for public input. The City's annexation plan must adhere to the overall goals of the City and must maintain the quality of life in the annexed areas as well as the City.

TAX MATTERS

TAX EXEMPTION

In the opinion of Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel, interest on the Bonds (1) is excludable from gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and (2) is not includable in the alternative minimum taxable income of individuals or, except as described below, corporations.

The foregoing opinions of Bond Counsel are based on the Code and the regulations, rulings and court decisions thereunder in existence on the date of issue of the Bonds. Such authorities are subject to change and any such change could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof or change the treatment of such interest for purposes of computing alternative minimum taxable income.

In rendering its opinions, Bond Counsel has assumed continuing compliance by the City with certain covenants of the Ordinance and has relied on the Verification Report of the Accountants (defined herein) and representations by the City with respect to matters solely within the knowledge of the City, which Bond Counsel has not independently verified. The covenants and representations relate to, among other things, the use of Bond proceeds and any facilities financed therewith, the source of repayment of the Bonds, the investment of Bond proceeds and certain other amounts prior to expenditure, and requirements that excess arbitrage earned on the investment of Bond proceeds and certain other amounts be paid periodically to the United States and that the City file an information report with the Internal Revenue Service (the "Service"). If the City should fail to comply with the covenants in the Ordinance, or if its representations relating to the Bonds that are contained in the Ordinance should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

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

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

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

Under the Code, taxpayers are required to provide information on their returns regarding the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. Such prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

PROPOSED TAX LEGISLATION

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT AND PREMIUM BONDS

DISCOUNT BONDS

Some of the Bonds may be offered at an initial offering price which is less than the stated redemption price payable at maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or underwriters) at such initial offering price, an initial owner who purchases a Bond of that maturity (a "Discount Bond") will be considered to have "original issue discount" for federal income tax purposes equal to the difference between (a) the stated redemption price payable at the maturity of such Discount Bond and (b) the initial offering price to the public of such Discount Bond. Under existing law, such original issue discount will be treated for federal income tax purposes as additional interest on a Bond and such initial owner will be entitled to exclude from gross income for federal income tax purposes that portion of such original issue discount deemed to be earned (as discussed below) during the period while such Discount Bond continues to be owned by such initial owner. Except as otherwise provided herein, the discussion regarding interest on the Bonds under the caption "Tax Exemption" generally applies to original issue discount deemed to be earned on a Discount Bond while held by an owner who has purchased such Bond at the initial offering price in the initial public offering of the Bonds and that discussion should be considered in connection with this portion of the Official Statement.

In the event of a redemption, sale, or other taxable disposition of a Discount Bond prior to its stated maturity, however, any amount realized by such initial owner in excess of the basis of such Discount Bond in the hands of such owner (increased to reflect the portion of the original issue discount deemed to have been earned while such Discount Bond continues to be held by such initial owner) will be includable in gross income for federal income tax purposes.

Because original issue discount on a Discount Bond will be treated for federal income tax purposes as interest on a Bond, such original issue discount must be taken into account for certain federal income tax purposes as it is deemed to be earned even though there will not be a corresponding cash payment. Corporations that purchase Discount Bonds must take into account original issue discount as it is deemed to be earned for purposes of determining alternative minimum tax. Other owners of a Discount Bond may be required to take into account such original issue discount as it is deemed to be earned for purposes of determining certain collateral federal tax consequences of owning a Bond. See "Tax Exemption" for a discussion regarding the alternative minimum taxable income consequences for corporations and for a reference to collateral federal tax consequences for certain other owners.

The characterization of original issue discount as interest is for federal income tax purposes only and does not otherwise affect the rights or obligations of the owner of a Discount Bond or of the City. The portion of the principal of a Discount Bond representing original issue discount is payable upon the maturity or earlier redemption of such Bond to the registered owner of the Discount Bond at that time.

Under special tax accounting rules prescribed by existing law, a portion of the original issue discount on each Discount Bond is deemed to be earned each day. The portion of the original issue discount deemed to be earned each day is determined under an actuarial method of accrual, using the yield to maturity as the constant interest rate and semi-annual compounding.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of a Discount Bond by an owner that did not purchase such Discount Bond in the initial public offering and at the initial offering price may be determined according to rules which differ from those described above. All prospective purchasers of Discount Bonds should consult their tax advisors with respect to the determination for federal, state and local income tax purposes of interest and original issue discount accrued upon redemption, sale or other disposition of such Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Discount Bonds.

PREMIUM BONDS

Some of the Bonds may be offered at an initial offering price which exceeds the stated redemption price payable at the maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or underwriters) at such initial offering price, each of the Bonds of such maturity ("Premium Bond") will be considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis for federal income tax purposes of a Premium Bond in the hands of an initial purchaser who purchases such Bond in the initial offering must be reduced each year and upon the sale or other taxable disposition of the Premium Bond by the amount of amortizable bond premium. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond by the initial purchaser. Generally, no corresponding deduction is allowed for federal income tax purposes, for the reduction in basis resulting from amortizable bond premium with respect to a Premium Bond. The amount of bond premium on a Premium Bond which is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined under special tax accounting rules which use a constant yield throughout the term of the Premium Bond based on the initial purchaser's original basis in such Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition by an owner of Bonds that are not purchased in the initial offering or which are purchased at an amount representing a price other than the initial offering price for the Bonds of the same maturity may be determined according to rules which differ from those described above.

Moreover, all prospective purchasers of Bonds should consult their tax advisors with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of Premium Bonds.

CONTINUING DISCLOSURE OF INFORMATION

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

ANNUAL REPORTS

The City will provide certain updated financial information and operating data to the MSRB. 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 the headings "WATERWORKS AND SEWER SYSTEM", "CITY WATER AND WASTEWATER FUND OPERATING STATEMENT", "DEBT INFORMATION", "MUNICIPAL UTILITY DISTRICTS WITHIN THE CITY" and in APPENDIX B. The City will update and provide this information within six months after the end of each fiscal year, however, if audited financial statements are not available when the information is provided, the City will provide audited financial statements when and if they become available and unaudited financial statements within 12 months after each fiscal year end, unless audited financial statements are sooner provided. Financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation. The City may provide updated information in full text or may incorporate by reference documents available on EMMA or filed with the U.S. Securities and Exchange Commission (the "SEC").

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

EVENT NOTICES

The City will also provide timely notices of certain events to the MSRB. The City will provide notice in a timely manner not in excess of ten (10) business days after the occurrence of the event of any of the following events with respect to the Bonds, (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor Trustee or change in the name of the Trustee, if material. As used above, the phrase "bankruptcy, insolvency, receivership or similar event" means the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court of governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if jurisdiction has been assumed by leaving the Board and officials or officers of the City in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. (Neither the Bonds nor the Ordinance make any provision for liquidity enhancement or credit enhancement, merger, consolidation, or acquisition). On August 15, 2018, the Securities and Exchange Commission adopted amendments to the Rule, which include the obligation to file notices of the incurrence of a financial obligation of the issuer or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the issuer or obligated person, any of which affect security holders, if material; and default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the issuer or obligated person, any of which reflect financial difficulties. The compliance date for the amendments is 180 days after they are published in the Federal Register. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

AVAILABILITY OF INFORMATION

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

LIMITATIONS AND AMENDMENTS

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

The City 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 would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. 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 the Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the the Rule 15c2-12 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 Bonds in the primary offering of the Bonds. 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 the past five (5) years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule 15c2-12.

OTHER INFORMATION

RATINGS

The Bonds and presently outstanding revenue debt of the City are rated, "AA+" by S&P and "AA+" by Fitch, without regard to credit enhancement. Some of the City's outstanding revenue debt also is rated "Aa2" by Moody's. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

LITIGATION

An appropriate official will certify that, on the date of delivery, there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that

the Bonds be assigned a rating of "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 Bonds are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bond and to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. 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. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System.

FINANCIAL ADVISOR

Hilltop Securities, Inc. is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Hilltop Securities, Inc. has agreed, in its Financial Advisory contract, not to bid for the Bonds, either independently or as a member of a syndicate organized to submit a bid for the Bonds. Hilltop Securities, Inc., 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 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

INITIAL PURCHASER

The Initial Purchaser has agreed, subject to certain conditions, to purchase the Bonds from the City at a price of \$_____, (representing the principal amount of the Bonds, plus a [net] original issue premium of \$_____, less an underwriting discount of \$_____). The Initial Purchaser 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 Initial Purchaser 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 Initial Purchaser.

CERTIFICATION OF THE OFFICIAL STATEMENT

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

ENVIRONMENTAL REGULATIONS

The City is subject to the environmental regulations of the State and the United States. These regulations are subject to change, and the City may be required to expend substantial funds to meet the requirements of such regulatory authorities.

AIR QUALITY

Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality ("TCEQ") may adversely affect new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act Amendments of 1990, the eight county Houston-Galveston-Brazoria Area ("HGB Area") has been designated by the EPA as a non-attainment area under the EPA's ozone standards. Such areas are required to demonstrate progress in reducing ozone concentrations each year until compliance with EPA's standards are achieved. To provide for annual reductions in ozone concentrations, the EPA and the TCEQ have imposed increasingly stringent limitations on emissions of volatile organic compounds and nitrogen oxides (chemical precursors of ground level ozone) from existing stationary sources of air emissions. In addition, any significant new source of those types of emissions, such as a new industrial plant, must provide for a net reduction of those air emissions by arranging or paying for reductions of emissions by 1.3 times the amount of pollutants proposed to be emitted by the new source. Even though existing air emissions controls are quite stringent, studies have indicated that even more stringent air emissions controls will be necessary in order for the HGB Area to achieve compliance with ozone standards. Due to the magnitude of air emissions reductions required as well as shortage of economically reasonable control options, the development of a successful air quality compliance plan has been and continues to be extremely challenging and will inevitably impact a wide cross-section of the business and residential community. More stringent controls on sources of air emissions in the HGB Area could make the Houston area a less attractive location to businesses in comparison to other areas of the country that are not subject to similarly stringent air emissions controls. Although air quality data indicates steady improvements in the HGB Area, if it fails to meet EPA's standards, EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects. The EPA may also impose more stringent emissions offset requirements on new major sources of emissions for which construction has not already commenced.

Other constraints on economic growth and development include lawsuits filed under the Clean Air Act by plaintiffs seeking to require emission reduction measures that are even more stringent than those adopted by TCEQ and approved by EPA. From time to time, various plaintiff environmental organizations have filed lawsuits against TCEQ and EPA seeking to compel the early adoption of additional emission reduction measures, many of which could make it more difficult for businesses to construct or expand industrial facilities or which could result in new restrictions on the actions of businesses, governmental entities and private citizens. Any successful court challenge to the currently effective air emissions control plan could result in the imposition of even more stringent air emission controls that could threaten continued growth and development in the HGB Area.

MISCELLANEOUS

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

The Ordinance also approves the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorizes its further use in the reoffering of the Bonds by the Initial Purchaser.

Mayor
City of Sugar Land, Texas

ATTEST:

City Secretary
City of Sugar Land, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

POPULATION ESTIMATES

City of Sugar Land

| <u>Fiscal Year</u> | <u>Population</u> | <u>Annual % Growth</u> |
|------------------------|------------------------|----------------------------|
| 2009 | 79,573 | 2.04% |
| 2010 | 80,787 | 1.53% |
| 2011 | 81,835 | 1.30% |
| 2012 | 82,999 | 1.42% |
| 2013 | 84,134 | 1.37% |
| 2014 | 86,495 | 2.81% |
| 2015 | 86,972 | 0.55% |
| 2016 | 87,504 | 0.61% |
| 2017 | 87,730 | 0.26% |
| 2018 | 117,869 ⁽¹⁾ | 34.35% |

Source: City of Sugar Land.

(1) Population growth primarily due to annexations.

TOP EMPLOYERS

City of Sugar Land

| <u>Employer</u> | <u>Number of Employees</u> |
|---------------------------------------|--------------------------------|
| Houston Methodist Sugar Land Hospital | 2,300 |
| Schlumberger | 2,200 |
| Fluor Enterprises, Inc. | 1,980 |
| United Healthcare/United Health Group | 1,289 |
| Nalco Champion, an Ecolab Company | 546 |
| First Data Telecheck | 500 |
| Memorial Hermann Sugar Land | 497 |
| Tramontina USA, Inc. | 419 |
| St. Luke's Hospital Sugar Land | 400 |
| AmerisourceBergen | 399 |

Source: City of Sugar Land.

LABOR FORCE AND UNEMPLOYMENT RATE

City of Sugar Land

| <u>Year</u> | <u>Civilian Labor Force</u> | <u>Total Employment</u> | <u>Unemployment</u> | <u>Rate</u> |
|-------------|---------------------------------|-----------------------------|---------------------|-------------|
| 2013 | 44,097 | 41,961 | 2,136 | 4.8% |
| 2014 | 45,262 | 43,487 | 1,775 | 3.9% |
| 2015 | 45,035 | 43,434 | 1,601 | 3.6% |
| 2016 | 45,037 | 42,896 | 2,141 | 4.8% |
| 2017 | 45,401 | 43,476 | 1,925 | 4.2% |

Fort Bend County

| <u>Year</u> | <u>Civilian Labor Force</u> | <u>Total Employment</u> | <u>Unemployment</u> | <u>Rate</u> |
|-------------|---------------------------------|-----------------------------|---------------------|-------------|
| 2013 | 333,271 | 314,975 | 18,296 | 5.5% |
| 2014 | 347,068 | 331,406 | 15,662 | 4.5% |
| 2015 | 355,573 | 340,441 | 15,132 | 4.3% |
| 2016 | 366,246 | 347,950 | 18,296 | 5.0% |
| 2017 | 369,788 | 352,659 | 17,129 | 4.6% |

Source: Texas Workforce Commission.

NEW BUILDING CONSTRUCTION PERMITS

| <u>Fiscal Year</u> | <u>New Commercial Construction Value</u> | <u>New Residential Construction Value</u> |
|------------------------|--|---|
| 2009 | \$ 102,791,856 | \$ 113,585,151 |
| 2010 | 29,715,891 | 129,032,162 |
| 2011 | 105,824,224 | 119,575,384 |
| 2012 | 24,673,274 | 116,979,515 |
| 2013 | 126,070,763 | 56,672,750 |
| 2014 | 144,089,602 | 63,705,608 |
| 2015 | 233,942,795 | 73,569,722 |
| 2016 | 93,021,183 | 67,562,184 |
| 2017 | 103,410,115 | 72,736,817 |
| 2018 | 163,554,817 | 70,378,761 |

Source: City of Sugar Land.

APPENDIX B

EXCERPTS FROM THE
CITY OF SUGAR LAND, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2017

The information contained in this Appendix consists of excerpts from the City of Sugar Land, Texas Annual Financial Report for the Year Ended September 30, 2017, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION