PRELIMINARY OFFICIAL STATEMENT

Dated November 26, 2018

Ratings:
Fitch: "AAA"
S&P: "AAA"
(See "OTHER INFORMATION - RATINGS" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Obligations 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.

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

CITY OF SUGAR LAND, TEXAS
(Fort Bend County)

$13,700,000*
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2019

$20,900,000*
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2019

Dated Date: December 1, 2018

Due: February 15 as shown on inside cover

PAYMENT TERMS . . . Interest on the $13,700,000* City of Sugar Land, Texas, General Obligation Refunding Bonds, Series 2019 (the "Bonds"), and the $20,900,000* City of Sugar Land, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2019 (the "Certificates") (collectively the "Obligations") will accrue from December 1, 2018 (the "Dated Date"), and will be payable August 15 and February 15 of each year commencing February 15, 2019, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Obligations will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Obligations may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Obligations will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Obligations will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Obligations. See "THE OBLIGATIONS - BOOK-ENTRY-ONLY SYSTEM" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE OBLIGATIONS - PAYING AGENT/REGISTRAR").

AUTHORITY FOR ISSUANCE OF THE BONDS . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") including particularly Chapter 1207, Texas Government Code, and are direct obligations of the City of Sugar Land, Texas (the "City"), payable from a continuing ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the ordinance authorizing the Bonds (the "Bond Ordinance") (see "THE OBLIGATIONS - AUTHORITY FOR ISSUANCE OF THE BONDS").

AUTHORITY FOR ISSUANCE OF THE CERTIFICATES . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas , particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), and constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge of a subordinate lien on certain revenues of the waterworks and sanitary sewer system of the City as provided in the ordinance authorizing the Certificates (the "Certificate Ordinance" and together with the Bond Ordinance, the "Ordinances") (see "THE OBLIGATIONS - AUTHORITY FOR ISSUANCE").

PURPOSE . . . Proceeds from the sale of the Bonds will be used (i) to refund a portion of the City's outstanding obligations described on Schedule I attached hereto (the "Refunded Obligations") to achieve debt service savings, and (ii) to pay the costs of issuance associated with the sale of the Bonds. Proceeds from the sale of the Certificates will be used for (i) construction, renovation or acquisition of: (a) street and traffic improvements, including, but not limited to, streets, boulevards and traffic signals, (b) drainage and flood control improvements, (c) law enforcement and emergency building improvements and equipment, and (d) City building office space improvements, including, but not limited to, the animal shelter, City Hall Annex and the Dispatch offices and (ii) the cost of professional services incurred in connection therewith.

See Maturity Schedule on the inside cover

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Obligations having stated maturities on and after February 15, 2029, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE OBLIGATIONS - 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 Obligations, each such Term Obligation shall be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Obligation and continuing on February 15 in each year thereafter until the stated maturity date of that Term Obligation, 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 above. Term Obligations 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 Obligations then subject to redemption. The City, at its option, may credit against any mandatory sinking fund redemption requirement Term Obligations 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.

LEGALITY . . . The Obligations are offered for delivery when, as and if issued and received by the initial purchaser(s) (the "Initial Purchasers") and subject to the approving opinions of the Attorney General of Texas and of Hunton Andrews Kurth LLP, Bond Counsel, Houston, Texas (see APPENDIX C, "FORMS OF BOND COUNSEL'S OPINIONS").

DELIVERY . . . It is expected that the Obligations will be available for delivery through The Depository Trust Company on January 9, 2019.

BIDS DUE ON THE BONDS TUESDAY, DECEMBER 4, 2018 AT 10:45 A.M. CST
BIDS DUE ON THE CERTIFICATES TUESDAY, DECEMBER 4, 2018 AT 10:15 A.M. CST

* Preliminary, subject to change.

MATURITY SCHEDULE

THE BONDS

Principal Amount*	Maturity	Interest Rate	Initial Yield [1]	CUSIP Numbers [2]	Principal Amount*	Maturity	Interest Rate	Initial Yield [1]	CUSIP Numbers (
$ 205,000	2019				$ 1,005,000	2025			
1,950,000	2020				345,000	2026			
1,315,000	2021				-	2027			
1,220,000	2022				1,685,000	2028			
1,295,000	2023				1,785,000	2029 [3]			
1,020,000	2024				1,875,000	2030 [3]			

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

THE CERTIFICATES

Principal Amount*	Maturity	Interest Rate	Initial Yield [1]	CUSIP Numbers [2]	Principal Amount*	Maturity	Interest Rate	Initial Yield [1]	CUSIP Numbers [2]
$ 795,000	2019				$ 940,000	2030 [3]			
1,120,000	2020				940,000	2031 [3]			
1,120,000	2021				935,000	2032 [3]			
1,120,000	2022				935,000	2033 [3]			
1,120,000	2023				930,000	2034 [3]			
1,115,000	2024				860,000	2035 [3]			
1,115,000	2025				855,000	2036 [3]			
1,110,000	2026				855,000	2037 [3]			
1,110,000	2027				855,000	2038 [3]			
1,110,000	2028				850,000	2039 [3]			
1,110,000	2029 [3]								

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

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(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 Obligations maturing on or after February 15, 2029 are subject to redemption, at the option of the City, on February 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See "THE OBLIGATIONS – OPTIONAL REDEMPTION."

* Preliminary, subject to change.

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	Human Resources	Councilmember At Large Position 2
Steve R. Porter	Retired	Councilmember Single Member District 1
Bridget Yeung	Financial Advisor	Councilmember Single Member District 2
Amy Mitchell	Attorney	Councilmember Single Member District 3
Carol K. McCutcheon	Engineer	Councilmember Single Member District 4

APPOINTED OFFICIALS

Name	Position	Year Employed
Allen Bogard	City Manager	1995
Steve Griffith	First Assistant City Manager	2005
James Callaway	Assistant City Manager	2002
Chris Steubing	Assistant City Manager	2006
Jennifer May	Assistant City Manager	2006
Jennifer Brown	Director of Finance	2000
Meredith Riede	City Attorney	2013
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 United States Securities and Exchange Commission (the "Rule"), this document constitutes an official statement of the City with respect to the Obligations that has been "deemed final" by the City as of the date except for the omission of no more than the information permitted by the Rule.

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

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

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

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described.

Neither the City, Bond Counsel nor the Financial Advisor 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 "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 OBLIGATIONS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE OBLIGATIONS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE OBLIGATIONS HAVE BEEN REGISTERED OR QUALIFIED 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 Obligations may be changed from time to time by the Initial Purchasers after such Obligations are released for sale, and the Obligations may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Obligations into investment accounts.

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

TABLE OF CONTENTS

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

OFFICIAL STATEMENT SUMMARY

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

THE CITY .... The City of Sugar Land (the "City") is a political subdivision and municipal corporation 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").

THE BONDS .... The Bonds are issued as $13,700,000* General Obligation Refunding Bonds, Series 2019. The Bonds are issued as serial bonds maturing 2019 through 2030, unless the Initial Purchaser of the Bonds designates one or more maturities as a Term Bond (see "THE OBLIGATIONS - DESCRIPTION OF THE OBLIGATIONS").

THE CERTIFICATES .... The Certificates are issued as $20,900,000* Combination Tax and Revenue Certificates of Obligation, Series 2019. The Certificates are issued as serial certificates maturing 2019 through 2039, unless the Initial Purchaser of the Certificates designates one or more maturities as a Term Certificate (see "THE OBLIGATIONS -DESCRIPTION OF THE OBLIGATIONS").

PAYMENT OF INTEREST .... Interest on the Obligations accrues from December 1, 2018, and is payable February 15, 2019, and each February 15 and August 15 thereafter until maturity or prior redemption (see "THE OBLIGATIONS - DESCRIPTION OF THE OBLIGATIONS" and "THE OBLIGATIONS - OPTIONAL REDEMPTION").

AUTHORITY FOR ISSUANCE OF THE BONDS .... The Bonds are issued pursuant to the Constitution and general laws of the State including particularly Chapter 1207, Texas Government Code and an ordinance authorizing their issuance (the "Bond Ordinance") (see "THE OBLIGATIONS - AUTHORITY FOR ISSUANCE OF THE BONDS").

AUTHORITY FOR ISSUANCE OF THE CERTIFICATES............... The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, and an ordinance authorizing their issuance (the "Certificate Ordinance") (see "THE OBLIGATIONS - AUTHORITY FOR ISSUANCE OF THE CERTIFICATES").

SECURITY FOR THE BONDS .... The Bonds constitute direct obligations of the City, payable from the levy and collection of a continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the City as provided in the Bond Ordinance (see "THE OBLIGATIONS - SECURITY AND SOURCE OF PAYMENT").

SECURITY FOR THE CERTIFICATES............................. The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge of a subordinate lien on certain revenues of the waterworks and sanitary sewer system of the City as provided in the Certificate Ordinance (see "THE OBLIGATIONS - SECURITY AND SOURCE OF PAYMENT").

REDEMPTION .... The City reserves the right, at its option, to redeem Obligations having stated maturities on and after February 15, 2029, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE OBLIGATIONS - OPTIONAL REDEMPTION"). Additionally, the Obligations may be subject to mandatory redemption in the event the Initial Purchasers elect to aggregate one or more maturities as a Term Obligation (see "THE OBLIGATIONS - MANDATORY SINKING FUND REDEMPTION").

TAX EXEMPTION .... In the opinion of Bond Counsel, under existing law the interest on the Obligations will be excludable from gross income for federal income tax purposes and is not included in the alternative minimum taxable income of individuals. See "TAX MATTERS - TAX EXEMPTION" for a discussion of the opinions of Bond Counsel, including the alternative minimum tax consequences for corporations.

* Preliminary, subject to change.

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

Proceeds from the sale of the Certificates will be used for (i) construction, renovation or acquisition of: (a) street and traffic improvements, including, but not limited to, streets, boulevards and traffic signals, (b) drainage and flood control improvements, (c) law enforcement and municipal building improvements and equipment, and (e) City building office space improvements, including, but not limited to, the animal shelter, Emergency Operation Center and Dispatch offices and (ii) the cost of professional services incurred in connection therewith.

RATINGS .... The Obligations and presently outstanding revenue debt of the City are rated "AAA" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "AAA" by Fitch Ratings ("Fitch"), without regard to credit enhancement (see "OTHER INFORMATION – RATINGS").

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

PAYMENT RECORD .... The City has never defaulted in payment of its debt.

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FINANCIAL HIGHLIGHTS

Financial Highlights			
2018 Assessed Valuation (net of exemptions and abatements) [(1)]		$	16,112,014,562
Indebtedness Payable from Ad Valorem Taxes			
City Bond Debt Payable from Ad Valorem Taxes (as of September 30, 2018):			
General Obligation Debt Outstanding [(2)]	$ 300,737,426		
Assumed Utility District Debt Outstanding [(2)]	20,820,305		
The Bonds [(3)]	13,700,000		
The Certificates [(3)]	20,900,000		
Total		$	356,157,731
Less: Utility Debt Paid from Utility Revenue [(4)]			105,525,305
Less: Debt Paid from Airport Revenue [(4)]			10,440,000
Less: Debt Paid from Hotel Occupancy Taxes [(4)]			13,530,000
Less: Interest and Sinking Fund (As of September 30, 2018) [(5)]			5,820,215
Net Bond Debt Payable from Ad Valorem Taxes		**$**	**220,842,211**
Estimated Overlapping Debt Outstanding (as of September 30, 2018) [(6)]		$	655,283,737
Net Direct and Estimated Overlapping Debt		$	876,125,948

Tax Supported Debt Ratios:	% of 2018 Assessed Value		Per Capita
Net Direct Debt	1.37%	$	1,871.18
Net Direct and Estimated Overlapping Debt	5.44%	$	7,423.35

Tax Supported Debt Service Requirements:		
2019 Net Principal and Interest Requirements	$	22,640,279
Average Annual Net Principal and Interest Requirements, 2019 - 2047		9,417,728
Maximum Net Principal and Interest Requirements, 2020		22,658,904
Total Collections (Arithmetic Averages, Fiscal Years 2014-2018):		
Current Collections		99.78%
Total Collections		99.80%

(1) Source: Fort Bend Central Appraisal District.
(2) Excludes Refunded Bonds. Preliminary, subject to change.
(3) Preliminary, subject to change.
(4) General obligation debt in the amounts shown for which repayment is provided from revenues of the respective revenue systems. The amount of self-supporting debt is based on the percentages of revenue support as shown in Computation of Self-Supporting Debt Table. It is the City's current policy to provide these payments from respective system revenues; this policy is subject to change in the future. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.
(5) Preliminary information provided by City staff.
(6) Source: Municipal Advisory Council of Texas.

PRELIMINARY OFFICIAL STATEMENT

RELATING TO

$13,700,000*	**$20,900,000***
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2019	**COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2019**

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of $13,700,000* City of Sugar Land, Texas, General Obligation Refunding Bonds, Series 2019 (the "Bonds"), and the $20,900,000* City of Sugar Land, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2019 (the "Certificates") (collectively the "Obligations"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinances of the City Council of the City of Sugar Land, Texas (the "City"), authorizing the issuance of the Bonds and the Certificates (the "Bond Ordinance" and the "Certificate Ordinance", respectively, and collectively the "Ordinances") to be adopted on the date of sale of the Obligations, except as otherwise indicated herein.

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

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 "Charter"). The City was incorporated in 1959 and first adopted its 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, and the City estimates the 2019 population as 118,023. The City encompasses approximately 42.85square miles.

THE OBLIGATIONS

DESCRIPTION OF THE OBLIGATIONS

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

AUTHORITY FOR ISSUANCE OF THE BONDS

The Bonds are being issued pursuant to the Constitution and general laws of the State including particularly Chapter 1207, Texas Government Code and the Bond Ordinance.

AUTHORITY FOR ISSUANCE OF THE CERTIFICATES

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), and the Certificate Ordinance.

SECURITY AND SOURCE OF PAYMENT

The Bonds constitute direct obligations of the City payable from the proceeds of a continuing ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the Bond Ordinance.

The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge of a subordinate lien on the net revenues of the waterworks and sanitary sewer system of the City, as provided in the Certificate Ordinance.

TAX RATE LIMITATION

Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 Taxable Assessed Valuation for all City purposes. The City is a Home Rule City with a maximum authorized tax rate for all purposes of $2.50 per $100 Assessed Valuation. Within this $2.50 maximum there is no limit on the amount of taxes which can be levied for debt service on outstanding bonds. The maximum tax rate is imposed both by the Constitution of the State of Texas and the City Charter. Under the rules of the Texas Attorney General, the City may issue general obligation debt in an amount no greater than that which can be serviced by a debt service tax of $1.50 per $100 assessed valuation, based on 90% collection, as calculated at the time of issuance.

OPTIONAL REDEMPTION

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

MANDATORY SINKING FUND REDEMPTION

In addition to the foregoing optional redemption provision, if principal amounts designated in the serial maturity schedule above are combined to create Term Obligations, each such Term Obligation shall be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Obligation and continuing on February 15 in each year thereafter until the stated maturity date of that Term Obligation, 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 above. Term Obligations 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 Obligations then subject to redemption. The City, at its option, may credit against any mandatory sinking fund redemption requirement Term Obligations 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.

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

NOTICE OF REDEMPTION

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

DEFEASANCE

The City reserves the right to defease the Obligations in any manner now or hereafter permitted by law.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

All payments on the Obligations will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest to DTC is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Participants.

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

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

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

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisors or the Underwriters of the Obligations.

Effect of Termination of Book-Entry-Only System. In the event the Book-Entry-Only System with respect to the Obligations is discontinued by DTC, or the use of the Book-Entry-Only System with respect to the Obligations is discontinued by the City, printed securities certificates will be issued to the holders of the affected Obligations, and the applicable Obligations will be subject to transfer, exchange, and registration provisions as set forth in the Ordinances, summarized under "The Obligations - Transfer, Exchange, and Registration" below.

PAYING AGENT/REGISTRAR

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

Principal of the Obligations 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 Obligations 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 (see "THE OBLIGATIONS – 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 Obligations shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding business day which is not such a Saturday, Sunday, or legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

TRANSFER, EXCHANGE AND REGISTRATION

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

RECORD DATE FOR INTEREST PAYMENT

The record date ("Record Date") for the interest payable on the Obligations on any interest payment date means the close of business on the last business day of the preceding month. In the event of a non-payment of interest on a scheduled payment date, and for thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 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 Holder of an Obligation appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing of such notice.

BONDHOLDERS' REMEDIES

The Ordinances do not establish specific events of default with respect to the Obligations or provide for the appointment of a trustee to represent the interests of the owners upon any failure of the City to perform in accordance with the terms of the Ordinances, or upon any other condition. If the City defaults in any payment due on the Obligations, or if the City defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Ordinances, any registered owner is entitled to seek a writ of mandamus or mandatory injunction from a court of proper jurisdiction to compel the City to levy, assess and collect an annual ad valorem tax sufficient (within the limits described herein) to pay principal of and interest on the Obligations as they become due or to perform other material covenants, conditions or obligations contained in the Ordinances. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract; and Texas law provides that, following their approval by the Attorney General and issuance, the Obligations are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. Such rights are in addition to any other rights the registered owners of the Obligations may be provided by the laws of the State with respect to the Obligations. Under Texas law there is no right to the acceleration of maturity of the Obligations upon the failure of the City to observe any covenant under the Ordinances. A registered owner of Obligations could file suit against the City if a default occurred in the payment of principal of or interest on any such Obligations; however, a suit for monetary damages could be vulnerable to the defense of sovereign immunity and any judgment could not be satisfied by execution against any property of the City.

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. In so ruling, the Court declared that statutory language such as "sue and be sued," in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. Because it is not clear that the Texas Legislature has effectively waived the City's immunity from suit for money damages, holders of the Obligations may not be able to bring such a suit against the City for breach of the Obligations or the Ordinances. 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.

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.

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

USE OF OBLIGATION PROCEEDS

Proceeds from the sale of the Obligations are expected to be expended as follows:

	The Bonds	The Certificates
Sources of Funds		
Par Amount	$ -	$ -
Net Premium	-	-
Total Sources	$ -	$ -
Uses of Funds		
Deposit to the Escrow Fund	$ -	$ -
Costs of Issuance	-	-
Underwriters' Discount	-	-
Deposit to Debt Service Fund (additional proceeds)	-	-
Total Uses of Funds	$ -	$ -

TAX INFORMATION

PROPERTY SUBJECT TO TAXATION BY THE CITY

The appraisal of property within the City is the responsibility of the Fort Bend Central Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Property Tax Code (defined below) to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. The appraised value of a residence homestead for a tax year may not exceed the lesser of (1) the most recent market value of the residence homestead as determined by the appraisal entity or (2) the sum of (a) 10 percent of the appraised value of the property for the preceding tax year; (b) the appraised value of the property for the preceding tax year; and (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an appraisal review board (the "Appraisal Review Board"), consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three (3) years. The City may require annual review at its own expense.

Reference is made to Title I of the Texas Tax Code (the "Property Tax Code") for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

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

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant: (1) an exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision; or (2) an exemption of up to 20% of the market value of residence homesteads. The minimum exemption under this provision is $5,000. Senate Joint Resolution 1 ("SJR 1"), passed during the 84th Texas Legislature, proposes a constitutional amendment authorizing the legislature to adopt a general law prohibiting the governing body of a city from reducing or repealing the optional homestead exemption. Senate Bill 1 ("SB 1"), which was also passed during the 84th Texas Legislature, would prohibit a city from reducing the amount of or repealing an optional homestead exemption that was in place for the 2014 tax year for a period running through December 31, 2019. SJR 1 will be considered at the November 2015 general election, and if SJR1 is approved and SB1 is effective, then effective for tax years beginning January 1, 2015, cities will not be able to reduce the optional homestead exemption from the amount granted for the 2014 tax year through December 31, 2019.

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

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a maximum of $12,000. Effective January, 1, 2010, the City must grant a complete exemption to the residential homesteads of veterans judged to be 100% disabled by the U.S. Department of Veterans Affairs.

Effective January 1, 2014, a partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran’s disability rating if the residence homestead was donated by a charitable organization. Also, effective January 1, 2014, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. Furthermore, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

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

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

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation. State law additionally provides for one motor vehicle owned by an individual and used in the course of the owner's occupation or profession and also for personal activities of the owner to be exempted from ad valorem taxation.

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

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by Section 11.253 of the Property Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Property Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the freeport exemption or the goods-in-transit exemption for items of personal property.

The City may create one or more tax increment financing zones, under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. Other overlapping taxing units may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the zone in excess of the "frozen value" to pay or finance the costs of certain public improvements in the zone. Taxes levied by the City against the values of real property in the zone in excess of the "frozen value" are not available for general city use but are restricted to paying or financing "project costs" within the zone. Currently, the City has created several tax increment financing zones, which are also referred to as tax increment reinvestment zones. See "TAX INCREMENT REINVESTMENT ZONES" herein.

Total exemptions claimed for Tax Year 2018 are approximately as follows: $1,058,540,436 homestead exemptions $554,123,497 exemptions for persons 65 years of age and over, $18,249,051 for disabled persons, $28,802,326 exemptions for disabled veterans, $10,307,510 exemptions for productivity loss reductions, $5,002,910 for pollution exemptions, $109,620,820 for personal leased vehicles, $1,155,989,337 for tax-exempt property, $367,942 for prorated exempt property, $111,281,196 for abatement exemptions, $40,373,570 for homestead CAP adjustment exemptions, and $12,179 for House Bill 366 exemptions. See "TAX DATA - VALUATION AND DEBT INFORMATION" herein.

TAX ABATEMENT

The City may enter into tax abatement agreements. Additionally, Fort Bend County, Fort Bend Independent School District, or municipal utility districts located inside the City limits, at the option and discretion of each entity may enter into tax abatement agreements with owners of property. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the City, for a period of up to ten (10) years, all or any part of the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement agreement. The terms of all tax abatement agreements must be substantially the same. The City has seven (7) agreements fourteen (14) accounts active tax abatement agreements with various companies. See "TAX DATA-VALUATION AND DEBT INFORMATION" for a listing of value loss associated with these tax abatement agreements.

TAX INCREMENT REINVESTMENT ZONES

Article VIII, Section 1-g of the Texas Constitution and the Tax Increment Financing Act, Chapter 311, V.T.C.A. Tax Code (the "TIF Act") authorize municipalities in the State to establish one or more tax increment financing reinvestment zones for development or redevelopment of the territory within the zones.

The TIF Act provides that the municipality may appoint a board of directors for a tax increment financing reinvestment zone to develop a project plan and financing plan for the zone and may delegate to the board certain management duties relating to the zone. Project costs, including financing costs, within the zone may be paid from tax increments collected by each of the taxing units in the zone. The amount of a taxing unit's tax increment for a year is the amount of property taxes levied by the unit for that year on the captured appraised value of real property taxable by the unit (the "Captured Appraised Value") and located in the zone. The Captured Appraised Value is the total appraised value of the property for a year, less the tax increment base of the unit. The tax increment base of a taxing unit is the total appraised value of all real property taxable by the unit and located in the zone in the year in which the City created the zone. Participation by a taxing unit in a reinvestment zone is discretionary with such taxing unit, and it may decide to deposit all or none, or a portion, of its tax increments into the fund and retain for its own purposes the remainder. A taxing unit cannot reduce the amount of its participation once the financing plan has been implemented. The City has designated and created three reinvestment zones.

The City created Reinvestment Zone Number One, City of Sugar Land, Texas (Town Square) (the "Town Square TIRZ") in 1998. The Town Square TIRZ encompasses approximately 32 acres of land at the corner of US Highway 59 and State Highway 6. The Town Square TIRZ shall terminate December 31, 2025.

The purpose of the Town Square TIRZ is to develop the City's Town Square, including a hotel and convention center, parking, and a plaza. The City, Fort Bend County, Texas and Fort Bend Levee Improvement District No. 2 have agreed to deposit to a tax increment fund established for the Town Square TIRZ (the "Tax Increment Fund") a percentage of tax collections arising from the increase, if any, since January 1, 1998, in the total appraised value of all real property located in the Town Square TIRZ. The City has agreed to deposit in the Tax Increment Fund 100% of its tax collections arising from the increase in the total appraised value of the real and personal property located in the Town Square TIRZ.

The Town Square TIRZ Board of Directors has nine (9) members, six (6) of whom are appointed by the City. One board member is appointed by Fort Bend County, one is appointed by the Texas State Senator in whose district the Town Square TIRZ is located and the final board member is appointed by the Texas State Representative whose district includes the Town Square TIRZ. For Tax Year 2018, the incremental value attributable to the Town Square TIRZ is $193,130,657.

The City created Reinvestment Zone Number Three, City of Sugar Land, Texas (Imperial) (the "Imperial TIRZ") in 2007. The Board of Directors consists of five members. The City Council appoints four members and Fort Bend County appoints one member. The Imperial TIRZ expires December 31, 2042. For Tax Year 2018, the incremental value attributed to the Imperial TIRZ is $106,130,711. TIRZ 3 encompasses 746 acres east of state highway 6, north of US 90a, south of Voss Rd and west of Burney Rd. The area includes the former Imperial Sugar Company site, and is being developed as Imperial, a mixed use development with high-end residential, commercial and entertainment venues, including a city-owned minor league baseball stadium.

The City created Reinvestment Zone Number Four ("TIRZ Four") in December 2009, covering approximately 702 acres near US Highway 59 and University Blvd. The purpose of TIRZ Four is to finance public improvements and facilities necessary to support the development of a high-quality mixed use urban center with retail, office and entertainment uses including Smart Financial Centre at Sugar Land, an indoor performance venue. Fort Bend County, the Fort Bend County Drainage District, and Fort Bend County Municipal Utility District Nos. 138 and 139 have agreed to participate at varying levels. The Board of Directors of TIRZ Four consists of eight members, with four members appointed by the City, and one member appointed by each of the remaining taxing entities. TIRZ Four expires December 31, 2039. The incremental value attributable to TIRZ Four for Tax Year 2018 is $90,856,507.

The City has agreed to deposit in the Tax Increment Fund 50% of its tax collections arising from the increase in appraised value of real property located in the Imperial TIRZ and TIRZ Four.

As described above, tax revenues of the City generated from assessed value attributable to any of the Town Square TIRZ, Imperial TIRZ or TIRZ Four are deposited into the Tax Increment Fund and are not available to make debt service payments on the Bonds.

PUBLIC IMPROVEMENT DISTRICT

On August 19, 2014, the City of Sugar Land approved Resolution No. 14-32 authorizing the creation of the Enclave at RiverPark Public Improvement District (the "PID"). The PID was created to finance improvements to the Enclave at RiverPark subdivision, an approximately 54 acre single family residential development located along US59, adjacent to and accessed through the RiverPark subdivision. The City contributes 50% of property taxes collected within the district to the PID. Tax year 2018 taxable value in PID is $37,168,985. A portion of the certificates will be supported by an assessment to property owners in the PID for reimbursements paid to the developer in accordance with this agreement.

TAXING PROCEDURES

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property at least once every three (3) years. Appraisals may be protested by taxpayers, and in certain cases the Appraisal Review Board determines whether the appraisals are substantially uniform and otherwise comply with Texas law. The City also has the right to challenge certain Appraisal District determinations, but not the appraised value of an individual taxpayer's property. Orders of the Appraisal Review Board are subject to appeal to a Texas District Court. The City's appraisal roll is certified for the City by the Appraisal District's Chief Appraiser, and the tax rate established by the City Council is applied to the values fixed by the Appraisal District, as reduced by exemptions granted by the City Council. The Property Tax Code designates that, as a home-rule city, the tax assessor-collector for the City is determined by the Charter and an ordinance. The City's charter states that the City Manager will designate a person to serve as the City's tax assessor-collector and perform the duties thereof. Currently, the City contracts with Fort Bend County for tax collection.

All taxing units are required to adopt their tax rates before the later of September 30 or the 60th day after the taxing unit receives the appraisal roll. Failure to adopt a tax rate by the deadline will result in the taxing unit adopting the effective tax rate or last year's rate, whichever is lower, as its tax rate for the current year. The effective tax rate is the tax rate that generates the same tax revenues as the prior year for properties taxed in both years.

The City will be required to hold two public hearings and publish newspaper notices before adopting a tax rate that exceeds the lower of the rollback rate or the effective tax rate. The rollback rate divides the overall property tax rate into categories: maintenance and operation (M&O) taxes and debt service taxes. The debt component can be increased to the amount needed to pay debt (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate, the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

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

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

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

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of various defined tax rates.

The City contracts with Fort Bend County for billing and collection of property taxes. Tax bills are mailed by October 1 or as soon thereafter as practicable. Taxes are due upon receipt of a tax bill and become delinquent on February 1 of the following year. If tax bills are mailed after January 10, the delinquency date is postponed to the first day of the next month that will provide at least twenty-one (21) days to pay. Delinquent taxes incur a penalty of 6% and interest of 1% on February 1. Interest at a rate of 1% per month will continue until July 1 at which time the penalty becomes 12% and interest of 6%, for a total of 18%. Interest on delinquent taxes continues to accrue at the rate of 1% per month until the tax is paid. If the tax is not paid by July 1, an additional penalty of up to 20% may be imposed by the City.

The City contracts with the legal firm Linebarger, Goggan, Blair & Sampson, L.L.P., for collection of delinquent property taxes through the tax collection contract with Fort Bend County. The taxpayer may be subject to seizure and sale of property to satisfy delinquent taxes. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

TAX DATA

VALUATION AND DEBT INFORMATION

2018 Market Valuation Established by Fort Bend Central Appraisal District [1]		$ 19,204,685,336
Less Exemptions/Reductions at 100% Market Value:		
Homestead CAP Adjustments	$ 40,373,570	
Tax Exempt Property	1,155,989,337	
Productivity Loss	10,307,510	
Homestead	1,058,540,436	
Over Age 65	554,123,497	
Disabled Persons	18,249,051	
Disabled Veterans	28,802,326	
Prorated Exempt Property	367,942	
Pollution Control	5,002,910	
House Bill 366	12,179	
Abatements	111,281,196	
Leased Vehicles	109,620,820	3,092,670,774
2018 Taxable Assessed Valuation		$ 16,112,014,562
City Bond Debt Payable from Ad Valorem Taxes (as of September 30, 2018):		
General Obligation Debt Outstanding [2]	$ 300,737,426	
Assumed Utility District Debt Outstanding [2]	20,820,305	
The Bonds [3]	13,700,000	
The Certificates [3]	20,900,000	$ 356,157,731
Less: Assumed Utility Debt Paid from Utility Revenue [4]		105,525,305
Less: Debt Paid from Hotel Occupancy Taxes [4]		13,530,000
Less: Debt Paid from Airport Revenue [4]		10,440,000
Less: Interest and Sinking Fund (as of September 30, 2018) [5]		5,820,215
Net Bond Debt Payable from Ad Valorem Taxes		**$ 220,842,211**
Ratio of Net Bond Debt to 2018 Taxable Assessed Valuation		1.37%

2019 Estimated Population - 118,023

Per Capita Taxable Assessed Valuation - $136,516

Per Capita Net General Obligation Funded Debt - $1,871

Area - 42.85 Square Miles

(1) Source: Fort Bend Central Appraisal District.
(2) Excludes Refunded Bonds. Preliminary, subject to change; includes Self Supporting.
(3) Preliminary, subject to change.
(4) General obligation debt in the amounts shown for which repayment is provided from revenues of the respective revenue systems. The amount of self-supporting debt is based on the percentages of revenue support as shown in Computation of Self-Supporting Debt Table. It is the City's current policy to provide these payments from respective system revenues; this policy is subject to change in the future. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.
(5) Preliminary information provided by City staff.

Taxable Assessed Valuations by Category

Fiscal Year Ended 9/30	Tax Year	Real Property	Personal Property	Less: Exemptions and Abatements	Total
2015	2014	$ 11,208,263,261	$ 1,523,164,586	$ 1,929,532,320	$ 10,801,895,527
2016	2015	12,864,737,445	1,637,959,277	2,460,150,956	12,042,545,766
2017	2016	13,598,332,324	1,563,714,089	3,092,670,774	12,069,375,639
2018	2017	14,047,459,751	1,610,202,524	2,624,979,897	13,032,682,378
2019	2018	17,577,019,725	1,627,665,611	3,092,670,774	16,112,014,562

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

Estimated Overlapping Bond Debt Payable from Ad Valorem Taxes

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

	Total G.O. Debt as of 9-30-2018	Estimated % Applicable	City's Overlapping G.O. Debt as of 9-30-2018
City of Sugar Land	$ 220,842,211 (1)	100.00%	$ 220,842,211
Burney Road MUD	8,600,000	100.00%	8,600,000
First Colony MUD No. 10	12,870,000	100.00%	12,870,000
Fort Bend County (2)	487,145,527	20.76%	101,131,411
Fort Bend County LID No. 2	11,680,000	100.00%	11,680,000
Fort Bend County LID No. 10	12,670,000	100.00%	12,670,000
Fort Bend County LID No. 14	2,505,000	100.00%	2,505,000
Fort Bend County LID No. 17	54,875,000	100.00%	54,875,000
Fort Bend County MUD No. 116	25,000,000	0.25%	62,500
Fort Bend County MUD No. 136	4,060,000	100.00%	4,060,000
Fort Bend County MUD No. 137	27,545,000	100.00%	27,545,000
Fort Bend County MUD No. 138	38,800,000	100.00%	38,800,000
Fort Bend County MUD No. 139	13,045,000	100.00%	13,045,000
Fort Bend County WC&ID No. 2	64,045,000	0.50%	320,225
Fort Bend ISD	1,000,633,767	34.65%	346,719,600
Imperial Redevelopment District	20,400,000	100.00%	20,400,000
Total Direct and Overlapping Funded Debt			$ 876,125,948

(1) Includes the Obligations, excludes Refunded Bonds and self-supporting debt. Preliminary, subject to change.
(2) Does not include $108,268,000 Fort Bend County, Texas Unlimited Tax and Subordinate Lien Toll Road Revenue Refunding Bonds, Series 2012.

HISTORICAL TAX RATE AND COLLECTIONS

Fiscal Year Ended 9/30	Tax Rate [1]	Distribution: General Fund	Distribution: Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2015	$ 0.31595	$ 0.17035	$ 0.14560	$ 34,706,602	99.77%	99.84%
2016	0.31595	0.17035	0.14560	37,968,629	99.70%	99.85%
2017	0.31595	0.17035	0.14560	39,704,494	99.64%	99.64%
2018	0.31762	0.17921	0.13841	41,394,406	99.79% [2]	99.79% [2]
2019	0.31762	0.18131	0.13631	50,238,204	In Process of Collection	

Source: The City of Sugar Land.
(1) Per $100 assessed valuation.
(2) Preliminary information provided by City staff.

MUNICIPAL SALES TAX AND HOTEL OCCUPANCY TAX

Pursuant to the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, the City has adopted a 1% Local Sales and Use Tax and 1/2% sales and use tax for property tax reduction within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Bonds. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, which remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. A sales tax for economic development (1/4 of 1%) is collected for the benefit of each of the Sugar Land Development Corporation and the Sugar Land 4B Corporation (the "Corporations"), and may be pledged to secure payment of sales tax revenue bonds issued by the Corporations. As of September 30, 2018, the Corporations have an aggregate of $77,160,000 in outstanding sales tax revenue bonds. Moreover, pursuant to Chapter 351, Texas Tax Code, the City, by ordinance, has levied a Hotel Occupancy Tax within its corporate limits. The Hotel Occupancy Tax is collected by the City on a quarterly basis. See "OTHER OBLIGATIONS – OBLIGATIONS TO STATE – REFUND OF SALES TAX."

All collections shown below are reported on a cash basis.

Fiscal Year Ended 9-30	General Sales	Economic Development [1]	Hotel Occupancy	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate
2014	$ 36,864,046	$ 12,288,016	$ 2,506,446	$ 51,658,508	163.74%	$ 0.506
2015	38,549,980	12,872,803	2,499,147	53,921,930	155.37%	0.491
2016	39,275,872	13,091,994	2,328,186	54,696,052	144.06%	0.455
2017	35,854,283	11,880,017	2,374,566	50,108,866	126.20%	0.399
2018 [2]	39,206,016	13,068,661	2,819,201	55,093,878	133.09%	0.423

Source: The City of Sugar Land.
(1) Represents sales tax collections for the Sugar Land Development Corporation and the Sugar Land 4B Corporation.
(2) Preliminary information provided by City staff.

TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2018 Net Assessed Valuation	% of Total Net Assessed Valuation
LCFRE Sugar Land Town Square LLC	Shopping Center	$ 126,274,299	0.78%
AmerisourceBergen Drug Corporation	Pharmacy/Medical	121,651,480	0.76%
Tramontina USA Inc.	Manufacturing	105,711,410	0.66%
First Colony Mall LLC	Shopping Center	87,022,910	0.54%
Lakepointe Assets LLC	Real Estate/Engineering	84,341,250	0.52%
Sugar Creek/EPG LLC & Sugar Creek TIC Investors LLC	Office	64,970,390	0.40%
Schlumberger Tech Corp	Engineering	56,549,520	0.35%
Nalco	Chemical Manufacturing	49,290,410	0.31%
BRE RC Riverpark SC TX LP	Shopping Center	46,614,226	0.29%
Houston Sugar Creek LLC	Office	45,884,310	0.28%
		$ 788,310,205	4.89%

General Obligation Debt Requirements

No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "THE OBLIGATIONS – TAX RATE LIMITATION").

Fiscal Year Ended 9/30	Outstanding Debt Service (1)		The Bonds (2)		The Certificates (2)		Total Outstanding Debt	Less: Self-Supporting Airport Debt Service	Less: Self-Supporting Hotel/Motel Debt Service	Less: Self-Supporting Utility Debt Service	Total Debt Service Requirements	% of Principal Retired
	Principal	Interest	Principal	Interest	Principal	Interest						
2019	$ 22,071,024	$ 11,432,316	$ 205,000	$ 383,915	$ 795,000	$ 533,681	$ 35,420,936	$ 1,258,623	$ 1,395,088	$ 10,126,947	$ 22,640,279	
2020	20,135,406	10,659,009	1,950,000	589,400	1,120,000	854,844	35,308,659	1,258,035	1,355,663	10,036,057	22,658,904	
2021	20,970,996	9,905,968	1,315,000	507,775	1,120,000	798,844	34,618,583	1,266,279	1,344,050	9,730,285	22,277,969	
2022	18,725,000	9,134,290	1,220,000	444,400	1,120,000	742,844	31,386,534	1,264,216	1,341,719	8,274,331	20,506,267	
2023	18,890,000	8,381,834	1,295,000	381,525	1,120,000	686,844	30,755,203	1,255,673	1,337,713	8,299,764	19,862,054	33.41%
2024	18,920,000	7,575,146	1,020,000	323,650	1,115,000	630,969	29,584,765	1,247,073	1,341,425	8,153,438	18,842,829	
2025	17,460,000	6,800,178	1,005,000	273,025	1,115,000	575,219	27,228,421	1,241,748	1,342,606	7,941,389	16,702,678	
2026	14,840,000	6,082,506	345,000	239,275	1,110,000	519,594	23,136,374	641,601	1,009,750	6,583,778	14,901,246	
2027	12,895,000	5,450,815	-	230,650	1,110,000	464,094	20,150,559	641,938	652,356	5,606,844	13,249,421	
2028	11,465,000	4,936,154	1,685,000	188,525	1,110,000	408,594	19,793,273	641,610	642,931	5,595,269	12,913,462	58.82%
2029	10,630,000	4,483,839	1,785,000	110,700	1,110,000	358,644	18,478,183	323,813	642,719	5,595,519	11,916,132	
2030	10,165,000	4,062,274	1,875,000	37,500	940,000	317,644	17,397,418	304,223	636,588	5,592,019	10,864,589	
2031	10,435,000	3,645,958	-	-	940,000	280,044	15,301,001	300,193	629,669	5,584,994	8,786,146	
2032	10,725,000	3,239,224	-	-	935,000	242,544	15,141,768	301,469	626,831	5,593,394	8,620,074	
2033	10,990,000	2,847,465	-	-	935,000	205,144	14,977,609	293,103	622,675	5,598,269	8,463,562	77.15%
2034	10,010,000	2,471,674	-	-	930,000	170,169	13,581,843	260,219	625,600	5,591,669	7,104,356	
2035	10,290,000	2,108,196	-	-	860,000	138,844	13,397,040	262,728	621,100	5,593,394	6,919,818	
2036	8,535,000	1,763,611	-	-	855,000	108,297	11,261,908	146,719	630,700	5,593,069	4,891,421	
2037	7,355,000	1,459,616	-	-	855,000	77,303	9,746,919	147,266	634,200	5,487,019	3,478,434	
2038	6,535,000	1,183,524	-	-	855,000	46,309	8,619,833	-	641,600	5,494,819	2,483,414	91.19%
2039	6,780,000	936,239	-	-	850,000	15,406	8,581,645	-	647,800	5,492,344	2,441,501	
2040	7,025,000	701,966	-	-	-	-	7,726,966	-	652,800	5,496,016	1,578,150	
2041	6,600,000	472,586	-	-	-	-	7,072,586	-	-	5,494,531	1,578,055	
2042	1,240,000	335,810	-	-	-	-	1,575,810	-	-	-	1,575,810	
2043	1,295,000	281,308	-	-	-	-	1,576,308	-	-	-	1,576,308	98.28%
2044	1,350,000	224,440	-	-	-	-	1,574,440	-	-	-	1,574,440	
2045	1,405,000	165,208	-	-	-	-	1,570,208	-	-	-	1,570,208	
2046	1,465,000	102,038	-	-	-	-	1,567,038	-	-	-	1,567,038	
2047	1,535,000	34,538	-	-	-	-	1,569,538	-	-	-	1,569,538	100.00%
	$ 300,737,426	$ 110,877,727	$ 13,700,000	$ 3,710,340	$ 20,900,000	$ 8,175,872	$ 458,101,365	$ 13,056,525	$ 19,375,581	$ 152,555,156	$ 273,114,102	

(1) Excluded the Refunded Bonds, includes self-supporting debt. Preliminary, subject to change.
(2) Interest is calculated at an assumed rate for the purpose of illustration. Preliminary, subject to change.

INTEREST AND SINKING FUND BUDGET PROJECTIONS

Budgeted General Obligation Debt Service Requirements, Fiscal Year Ending 9/30/2019		$ 27,839,509
Budgeted Interest and Sinking Fund (as of 9/30/2018)	$ 5,820,215	
Budgeted Interest and Sinking Fund Tax Levy	21,394,000	
Budgeted Transfer of Remaining Annexation Fund Balances	2,034,995	
Budgeted Rebates, Assignments & Transfers	(1,909,724)	
Budgeted Smart Financial Centre at Sugar Land Lease Revenue [1]	1,904,486	
Budgeted Transfer from Hotel Occupancy Taxes	1,400,151	
Budgeted Transfer from Waterworks and Wastewater Utility Fund	6,086,153	36,730,276
Budgeted Estimated Balance, 9/30/2019		$ 8,890,767

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(1) The City budgets to pay 100% of the Combination Tax and Revenue Certificates of Obligation, Series 2014A (Taxable) from lease payments from ACE SL, LLC pursuant to the facility lease for the Smart Financial Centre at Sugar Land.

COMPUTATION OF SELF-SUPPORTING DEBT [1]

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	10,547,386
Balance Available for Other Purposes	$ 18,418,934
System General Obligation Bond Requirements, 2019 Fiscal Year	10,126,947
Balance	$ 8,291,987
Percentage of System General Obligation Bonds, Self-Supporting	100.00%
Hotel/Motel Tax Self-Supporting Debt	
Available for Debt Service from Hotel/Motel Taxes, Fiscal Year Ended 9-30-18	$ 1,950,835
Hotel/Motel Tax General Obligation Bond Requirements, 2019 Fiscal Year	1,395,088
Balance	$ 555,748
Percentage of System General Obligation Bonds, Self-Supporting	100.00%
Airport System Self-Supporting Debt	
Available for Debt Service from Airport System Revenue, Fiscal Year Ended 9-30-18	$ 3,121,593
Airport System General Obligation Bond Requirements, 2019 Fiscal Year	1,258,623
Balance	$ 1,862,970
Percentage of System General Obligation Bonds, Self-Supporting	100.00%

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

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Date of Authorization	Amount Authorized	Purpose	Issued to Date	Authorized but Unissued
11/5/2013	$ 21,300,000	Brazos River Park & Festival Site	$ 17,900,000	$ 3,400,000
11/5/2013	10,160,000	Hike and Bike Trails	3,300,000	6,860,000
	$ 31,460,000		$ 21,200,000	$ 10,260,000

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT

The City does not anticipates the issuance of additional general obligation debt in the next twelve (12) months.

OTHER OBLIGATIONS

OBLIGATIONS TO STATE – REFUND OF SALES TAX

During the 1999 fiscal year, the Texas State Comptroller of Public Accounts notified the City of Sugar Land, the Sugar Land Development Corporation and the Sugar Land 4B Corporation that the State had remitted $591,620 in sales tax receipts to the City, which were not collected within the City. The State requested the amount to be returned to the State. The City had allocated the sales tax to the Corporations in accordance with the proper sales tax rates. The City settled with the State to repay the State in annual installments of $19,721 starting October 1, 1999, over a 30-year period without interest.

During fiscal year 2017, the State Comptroller notified the City that it had paid $725,100.54 in local sales taxes to the City in error. The payment was initially withheld from the January 2017 payment, added back to the February 2017 payment and the State agreed to deduct 32 payments of $21,973.00 from March 2017 to October 2019 followed by a final deduction of $21,964.54 in November 2019.

PENSION FUND

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefits plan in the state-wide Texas Municipal Retirement System ("TMRS"). 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 APPENDIX B, "EXCERPTS FROM THE CITY OF SUGAR LAND, TEXAS 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 $95,670. 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.)

FINANCIAL INFORMATION

GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
Revenues:	2018 (1)	2017	2016	2015	2014
Property Taxes	$ 22,624,759	$ 21,127,721	$ 20,186,224	$ 18,433,233	$ 17,616,800
Sales Taxes	39,206,016	35,854,284	39,275,872	38,549,980	36,864,046
Franchise & Other Taxes	6,338,045	6,160,773	5,902,848	5,899,673	5,867,489
Licenses & Permits	3,454,159	3,052,646	3,242,529	3,494,806	3,033,205
Fines and Forfeitures	1,723,353	1,550,428	1,801,011	1,874,655	1,891,729
Charges for Services	3,685,607	11,167,633	10,927,714	8,654,100	3,222,666
Investment Earnings	458,597	332,383	486,495	468,598	184,450
Intergovernmental	526,025	657,843	233,980	765,667	819,737
Other	11,962,703	423,943	463,404	375,475	409,621
Total Revenues	$ 89,979,264	$ 80,327,654	$ 82,520,077	$ 78,516,187	$ 69,909,743
Expenditures:					
General Government	$ 12,518,021	$ 15,339,082	$ 14,598,370	$ 11,484,567	$ 11,193,575
Administrative Services	3,959,694	4,032,334	5,240,088	7,465,770	6,032,405
Public Safety - Police	22,576,571	23,471,122	21,035,289	19,789,824	17,408,143
Public Safety - Fire	14,994,742	12,947,595	12,992,037	14,607,687	10,882,105
Public Safety - EMS	-	1,711,485	1,591,873	2,935,585	-
Public Works	10,468,149	9,510,418	8,441,979	11,770,859	9,444,192
Parks and Recreation	4,649,130	4,911,262	4,288,928	3,827,743	5,548,147
Community Development	5,097,981	5,163,724	5,155,978	5,583,223	4,917,761
Environmental and Neighborhood Services	5,159,493	5,099,366	4,892,216	-	-
Debt Service	-	-	-	-	365,050
Total Operating Expenditures	$ 79,423,781	$ 82,186,388	$ 78,236,758	$ 77,465,258	$ 65,791,378
Net Revenue From Operations	$ 10,555,483	$ (1,858,734)	$ 4,283,319	$ 1,050,929	$ 4,118,365
Operating Transfers (In/Out)	$ 3,565,600	$ 2,305,557	$ (4,572,491)	$ (4,085,008)	$ (2,572,306)
Other Financing Sources (Uses)	3,316,568	107,275	36,987	3,564,099	54,949
Net Change in fund balance	3,673,315	554,098	(252,185)	530,020	1,601,008
Fund Balance, October 1	$ 29,096,445	$ 28,542,347	$ 28,794,532	$ 28,264,512	$ 26,663,504
Prior Period Adjustments	(6,639,382)	-	-	-	-
Fund Balance, End of Year	$ 26,130,378	$ 29,096,445	$ 28,542,347	$ 28,794,532	$ 28,264,512

(1) Unaudited Preliminary information provided by City staff.

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 Surface Water 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 Fund; 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 submits 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

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, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) 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 or, (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (iii) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (iv) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (v) the City appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit issued for the account of the City; (8) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) 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; (10) 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; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 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 (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two (2) years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by 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 below. Texas law also permits the City to invest bond proceeds in a guaranteed investment contract, subject to limitations as set forth in the Public Funds Investment Act, Texas Government Code, Chapter 2256.

A political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program 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.

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 City Council detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending value and fully accrued interest for the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period by the type of asset and fund type invested, (5) the maturity date of each separately invested asset that has a maturity date, (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
	$ 159,625,584	$ 159,592,968	$ 158,847,428

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 for whom First Southwest Asset Management, Inc., an affiliate of First Southwest Company, LLC, provides customer service and marketing for the pool. TexSTAR currently maintains an "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.

THE MUNICIPAL AIRPORT SYSTEM

GENERAL

The City owns and operates the Sugar Land Municipal Airport (the "Airport"), which provides general aviation services seven (7) days a week. Airport facilities include an 8,000 foot runway, a control tower, various hangars and a terminal. Services provided include aircraft fueling, defueling, tugging, U.S. Customs and parking. The primary sources of revenues are fuel sales, hangar leases and land leases.

As of September 30, 2018, the City has outstanding $3,730,000 of the $7,115,000 General Obligation Refunding Bonds, Series 2012A (the "Series 2012A Bonds"), $570,000 of the $21,205,000 Combination Tax and Revenue Certificates of Obligation, Series 2013 (the "Series 2013 Certificates"), $1,495,000 of the $15,530,000 Combination Tax and Revenue Certificates of Obligation, Series 2015 (the "Series 2015 Certificates"), $2,430,000 of the $11,890,000 General Obligation Refunding Bonds, Series 2015 (the "Series 2015 Refunding Bonds"), $225,000 of the $22,970,000 General Obligation Refunding Bonds, Series 2016 (the "Series 2016 Refunding Bonds") and $1,990,000 of the $21,115,000 Combination Tax and Revenue Certificates of Obligations, Series 2017 (the "Series 2017 Certificates") (collectively, the "Airport Obligations"). Although the Airport Obligations are payable from ad valorem taxes, the City has historically paid them from net revenues derived from the operation of the Airport and intends to continue to do so. Debt service on the Airport Obligations (excluding the portions of the Series 2009 Certificates, the Series 2012A Bonds, the Series 2013 Certificates, the Series 2015 Certificates, the Series 2015 Refunding Bonds, the Series 2016 Refunding Bonds and the Series 2017 Certificates that are not airport related and are paid from ad valorem tax revenues) is accounted for in the City's Airport Enterprise Fund and not in the General Long-Term Debt Account Group. Property taxes received from Airport property are used for development of the Airport. Should Airport revenues be insufficient in any year to pay principal and interest on the Airport Obligations, the City would be required to levy a tax sufficient, together with other available funds, to pay principal and interest on such obligations.

AIRPORT SYSTEM OPERATING STATEMENT

	Fiscal Year Ended September 30,				
Revenues:	2018 [1]	2017	2016	2015	2014
Charges for Service	$ 15,585,139	$ 13,543,538	$ 11,830,391	$ 13,747,794	$ 16,939,277
Non-Operating Revenues	72,500	80,746	111,555	84,333	58,667
Total Revenues	$ 15,657,639	$ 13,624,284	$ 11,941,946	$ 13,832,127	$ 16,997,944
Expenses:					
Total Expenses	$ 12,536,046	$ 11,661,097	$ 9,844,254	$ 11,605,184	$ 14,005,337
Net Revenue Available for Debt Service	$ 3,121,593	$ 1,963,187	$ 2,097,692	$ 2,226,943	$ 2,992,607
Debt Service Requirements	$ 1,258,623	$ 1,262,514	$ 1,143,585	$ 1,120,213	$ 1,031,640
Coverage	2.48x	1.55x	1.83x	1.99x	2.90x

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

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 $16,855,000 Waterworks and Sewer System Revenue Bonds, Series 2012, $5,560,000 Waterworks and Sewer System Revenue Refunding Bonds, Series 2012A, $12,630,000 Waterworks and Sewer System Revenue Bonds, Series 2013, $13,665,000 Waterworks and Sewer System Revenue and Refunding Bonds, Series 2015, $31,280,000 Waterworks and Sewer System Revenue and Refunding Bonds, Series 2016, and $19,140,000 Waterworks and Sewer System Revenue Bonds Series 2017 (the "System Parity Bonds"). In conjunction with the sale of the Obligation, the City will also be issuing $13,885,000 Waterworks and Sewer System Revenue Bonds, Series 2019.

GROUNDWATER REDUCTION PLAN AND 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 GRP fee is currently $1.88 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, the "), a portion of the City's Combination Tax and Revenue Certificates of Obligation, Series 2016 (the "Series 2016 Certificates and together with 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.

SYSTEM DEBT SERVICE COVERAGE AND FUND BALANCES

	2018 (1)	2017	2016	2015	2014
Total Operating Revenues	$ 48,262,320	$ 43,070,201	$ 46,750,764	$ 43,600,505	$ 44,461,529
Total Operating Expenses	19,296,000	22,826,764	21,687,088	21,169,904	18,722,110
Amount Available for Revenue Debt Service	$ 28,966,320	$ 20,243,437	$ 25,063,676	$ 22,430,601	$ 25,739,419
Annual Revenue Bond Debt Service	$ 10,547,386 (2)	$ 10,707,194	$ 9,594,044	$ 8,881,591	$ 8,566,394
Net Revenue Coverage	2.75x	1.89x	2.61x	2.53x	3.00x
Surplus Available Funds	$ 18,418,934	$ 9,536,243	$ 15,469,632	$ 13,549,010	$ 17,173,025

(1) Unaudited; Preliminary figures provided by the city.
(2) Includes $13,885,000 Waterworks and Sewer System Revenue Bonds Series 2019 being sold in conjunction with the Bonds and Certificates. Preliminary subject to change.

THE CITY

GOVERNMENTAL STRUCTURE

The City was incorporated in 1959 and adopted its Charter in November 1980. The City operates under a council-manager form of government. The City Council consists of a Mayor and six 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 the City.

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 approximately 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 protection, solid waste disposal, 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 school districts with 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 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 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.

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.

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.

The city annexed and dissolved nine municipal utility districts in the City’s extraterritorial jurisdiction, effective at 12:01am on December 12, 2017. The city assumed all assets and liabilities of the districts and began providing full city services.

Upon annexation, the City will assume all assets and liabilities of each district, and will provide full municipal services to the

TAX MATTERS

TAX EXEMPTION

In the opinion of Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel, interest on the Obligations 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 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 Obligations. Such authorities are subject to change and any such change could prospectively or retroactively result in the inclusion of the interest on the Obligations 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 Ordinances and has relied on 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 Obligation proceeds and any facilities financed therewith, the source of repayment of the Obligations, the investment of Obligation proceeds and certain other amounts prior to expenditure, and requirements that excess arbitrage earned on the investment of Obligation 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 Ordinances, or if its representations relating to the Obligations that are contained in the Ordinances should be determined to be inaccurate or incomplete, interest on the Obligations could become taxable from the date of delivery of the Obligations, regardless of the date on which the event causing such taxability occurs.

Interest on the Obligations 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 Obligations.

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 Obligations is commenced, under current procedures the Service is likely to treat the City as the "taxpayer," and the owners of the Obligations 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 Obligations, the City may have different or conflicting interests from the owners of the Obligations. Public awareness of any future audit of the Obligations could adversely affect the value and liquidity of the Obligations 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 Obligations, received or accrued during the year.

Prospective purchasers of the Obligations should be aware that the ownership of tax-exempt obligations, such as the Obligations, 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 Obligations.

Tax legislation, administrative action taken by tax authorities, and court decisions may cause interest on the Obligations to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Obligations 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 Obligations. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Obligations. Prospective purchasers of the ding 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.

PROPOSED TAX LEGISLATION

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Obligations to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Obligations 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 Obligations. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Obligations. Prospective purchasers of the Obligations 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.

DISCOUNT OBLIGATIONS

Some of the Obligations may be offered at an initial offering price which is less than the stated redemption price payable at maturity of such Obligations. If a substantial amount of any maturity of the Obligations 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 the Obligations of that maturity (the "Discount Obligations") 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 Obligation and (b) the initial offering price to the public of such Discount Obligation. Under existing law, such original issue discount will be treated for federal income tax purposes as additional interest on an Obligation 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 Obligation continues to be owned by such initial owner. Except as otherwise provided herein, the discussion regarding interest on the Obligations under the caption "TAX MATTERS – TAX EXEMPTION" generally applies to original issue discount deemed to be earned on a Discount Obligation while held by an owner who has purchased such Obligation at the initial offering price in the initial public offering of the Obligations 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 Obligation prior to its stated maturity, however, any amount realized by such initial owner in excess of the basis of such Discount Obligation in the hands of such owner (increased to reflect the portion of the original issue discount deemed to have been earned while such Discount Obligation 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 Obligation will be treated for federal income tax purposes as interest on an Obligation, 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 Obligations 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 Obligation 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 an Obligation. See "TAX MATTERS – 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 Obligation or of the City. The portion of the principal of a Discount Obligation representing original issue discount is payable upon the maturity or earlier redemption of such Obligation to the registered owner of the Discount Obligation at that time.

Under special tax accounting rules prescribed by existing law, a portion of the original issue discount on each Discount Obligation 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 Discount Obligations by an owner that did not purchase such Obligations 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 Obligations 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 Obligations and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Discount Obligations.

PREMIUM OBLIGATIONS

Some of the Obligations may be offered at an initial offering price which exceeds the stated redemption price payable at the maturity of such Obligations. If a substantial amount of any maturity of the Obligations 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 Obligations of such maturity ("Premium Obligations") 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 Obligation in the hands of an initial purchaser who purchases such Obligation in the initial offering must be reduced each year and upon the sale or other taxable disposition of the Obligation 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 Obligation 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 Obligation. The amount of bond premium on a Premium Obligation which is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Obligation) is determined under special tax accounting rules which use a constant yield throughout the term of the Premium Obligation based on the initial purchaser's original basis in such Obligation.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition by an owner of Obligations 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 Obligations of the same maturity may be determined according to rules which differ from those described above. Moreover, all prospective tax advisors with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of Premium Obligations.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinances, the City has made the following agreement for the benefit of the holders and beneficial owners of the Obligations. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Obligations. 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 "TAX DATA" (except for the information under the subcaption "ESTIMATED OVERLAPPING BOND DEBT PAYABLE FROM AD VALOREM TAXES"), "FINANCIAL INFORMATION," "DEBT INFORMATION," "THE MUNICIPAL AIRPORT SYSTEM," "WATERWORKS AND SEWER SYSTEM," "OTHER OBLIGATIONS" and in APPENDIX B. The City will update and provide this information within six (6) months after the end of each fiscal year ending on and after September 30, 2018; 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 twelve (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 United States 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 Obligations, (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the Obligations; (7) modifications to rights of holders of the Obligations, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (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 Obligations nor the Ordinances 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 Obligations may seek a writ of mandamus to compel the City to comply with its agreement.

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

COMPLIANCE WITH PRIOR UNDERTAKINGS

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

LITIGATION

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

REGISTRATION AND QUALIFICATION OF OBLIGATIONS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

LEGAL MATTERS

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Obligations, including the unqualified approving legal opinion of the Attorney General of Texas approving the Obligations and to the effect that the Obligations are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinions of Bond Counsel in substantially the forms attached hereto as APPENDIX C. The various legal opinions to be delivered concurrently with the delivery of the Obligations express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Obligations is contingent on the sale and delivery of the Obligations. The legal opinion will accompany the Obligations deposited with DTC or will be printed on the Obligations in the event of the discontinuance of the Book-Entry-Only System.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

FINANCIAL ADVISOR

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

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

INITIAL PURCHASER - BONDS

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.

INITIAL PURCHASER - CERTIFICATES

The Initial Purchaser has agreed, subject to certain conditions, to purchase the Certificates from the City at a price of $_________, (representing the principal amount of the Certificates, plus a [net] original issue premium of $_________, less an underwriting discount of $______________). The Initial Purchaser will be obligated to purchase all of the Certificates if any Certificates are purchased. The Certificates to be offered to the public may be offered and sold to certain dealers (including the Initial Purchaser and other dealers depositing Certificates into investment trusts) at prices lower than the public offering prices of such Certificates, and such public offering prices may be changed, from time to time, by the Initial Purchaser.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Obligations, 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 Obligations, 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 Ordinances 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 Obligations by the Initial Purchaser.

____
Mayor
City of Sugar Land, Texas

ATTEST:

____
City Secretary
City of Sugar Land, Texas

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Schedule I

SCHEDULE OF REFUNDED OBLIGATIONS*

Unlimited Tax Bonds, Series 1997

Original Dated Date	Maturity Date	Interest Rate	Principal Amount Outstanding	Principal Amount Refunded	CUSIP
12/1/1997	10/1/2020	4.500%	$ 310,000	$ 310,000	346920EJ6
	10/1/2021	4.500%	330,000	330,000	346920EK3
	10/1/2022	4.500%	350,000	350,000	346920EL1
			$ 990,000	$ 990,000	

The 2020 – 2022 maturities will be redeemed prior to original maturity on January 10, 2019 at par.

Combination Tax and Revenue Certificates of Obligation, Series 2010

Original Dated Date	Maturity Date	Interest Rate	Principal Amount Outstanding	Principal Amount Refunded	CUSIP
6/15/2010	2/15/2020	3.125%	$ 1,100,000	$ 1,100,000	864855K75
	2/15/2028	4.000%	1,645,000	1,645,000	864855L74
	2/15/2029	4.000%	1,730,000	1,730,000	864855L82
	2/15/2030	4.000%	1,815,000	1,815,000	864855L90
			$ 6,290,000	$ 6,290,000	

The 2020 maturity and 2028 – 2030 maturities will be redeemed prior to original maturity on February 15, 2019 at par.

General Obligation Bonds, Series 2010

Original Dated Date	Maturity Date	Interest Rate	Principal Amount Outstanding	Principal Amount Refunded	CUSIP
6/15/2010	2/15/2028	4.000%	$ 170,000	$ 170,000	864855J36
	2/15/2029	4.000%	180,000	180,000	864855J44
	2/15/2030	4.125%	190,000	190,000	864855J51
			$ 540,000	$ 540,000	

The 2028 – 2030 maturities will be redeemed prior to original maturity on February 15, 2019 at par.

General Obligation Refunding Bonds, Series 2010

Original Dated Date	Maturity Date	Interest Rate	Principal Amount Outstanding	Principal Amount Refunded	CUSIP
6/1/2010	2/15/2020	5.000%	$ 1,040,000	$ 1,040,000	864856AX7
	2/15/2021	5.000%	1,095,000	1,095,000	864856AY5
	2/15/2022	5.000%	985,000	985,000	864856AZ2
	2/15/2023	5.000%	1,040,000	1,040,000	864856BA6
	2/15/2024	4.000%	1,095,000	1,095,000	864856BB4
	2/15/2025	4.000%	1,075,000	1,075,000	864856BC2
	2/15/2026	4.000%	385,000	385,000	864856BD0
			$ 6,715,000	$ 6,715,000	

The 2020 – 2026 maturities will be redeemed prior to original maturity on February 15, 2019 at par.

* Preliminary, subject to change.

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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POPULATION ESTIMATES

City of Sugar Land

Fiscal Year	Population	Annual % Growth
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

Employer	Number of Employees
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

Year	Civilian Labor Force	Total Employment	Unemployment	Rate
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

Year	Civilian Labor Force	Total Employment	Unemployment	Rate
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

Fiscal Year	New Commercial Construction Value	New Residential Construction Value
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.

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REPORT OF INDEPENDENT AUDITORS

To the Honorable Mayor and Members
of the City Council
City of Sugar Land, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Honorable Mayor and Members
of the City Council
City of Sugar Land, Texas

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 16, budgetary comparison information on pages 81 through 82, pension system supplementary information on pages 83 through 84, and other post-employment benefit supplementary information on page 85 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplementary information, as described in the accompanying table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as described in the accompanying table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the other supplementary information, as described in the accompanying table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

To the Honorable Mayor and Members
of the City Council
City of Sugar Land, Texas

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated February 13, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

Whitley Penn LLP

Houston, Texas
February 13, 2018

The management of the City of Sugar Land offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2017.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $667.4 million *(net position).* Of this amount, $68.5 million *(unrestricted net position)* may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $77.8 million, a decrease of $9 million over the prior year. Approximately 36% of this total amount, $28.0 million, is *available for spending* at the government's discretion *(unassigned fund balance).*
- The City's Financial Management Policy requires the City to maintain the General fund's unassigned fund balance equivalent to three months of recurring budgeted operating costs, which is approximately $18.3 million for fiscal year 2017.
- The City's total long-term liabilities increased by $28.6 million due to the issuance of new debt and an increase in the City's net pension liability.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

Government-wide Financial Statements (continued)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues *(governmental activities)* from other functions that are intended to recover all or a significant portion of their costs through user fees and charges *(business-type activities)*. The governmental activities of the City include general government, administrative services, public safety, public works, parks and recreation, community development, and environmental and neighborhood services. The business-type activities of the City include utility system, including surface water operations, and solid waste operations as well as the operations of a regional airport facility.

The government-wide financial statements include not only the City itself (known as *the primary government),* but also legally separate entities for which the City is financially accountable. Financial information for these *discretely presented component units* is reported separately from the financial information presented for the primary government itself. The City's four discretely presented component units consist of the following:

- Sugar Land 4B Corporation (4B Corporation)
- Sugar Land Town Square Tax Increment Reinvestment Zone No. 1 (T1RZ 1)
- Sugar Land Reinvestment Zone No. 3 (TIRZ 3)
- Sugar Land Reinvestment Zone No. 4 (TIRZ 4)

The following component unit is a blended component unit, meaning its financial information is included with that of the primary government:

- Sugar Land Development Corporation

The government-wide financial statements can be found on pages 19 through 21 of this report.

Fund Financial Statements

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

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

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

Fund Financial Statements (continued)

The City maintains 12 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Debt Service, and Capital Projects, all of which are considered to be major funds. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in the comprehensive annual financial report on pages 91 through 96. Four funds relating to debt reduction have been combined into one fund.

The basic governmental fund financial statements can be found on pages 22 through 25 of this report.

Proprietary Funds - The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its utility system, surface water plant, and solid waste operations as well as the operations of a regional airport facility. The City uses internal service funds to report activities that provide supplies and services for the City's other programs and activities. The Employee Benefits Fund, Fleet Replacement Fund and High-Technology Replacement Fund are the City's internal service funds. Their purpose is to provide for the accumulation of money for employee benefits, as well as, vehicle and equipment replacement used in City operations. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the utility system, including the surface water treatment plant, and solid waste operations as well as the operations of the regional airport facility. The utility system and airport funds are considered to be major funds of the City. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in the comprehensive annual financial report.

The basic proprietary fund financial statements can be found on pages 26 through 29 of this report.

Combining Component Unit Financial Statements

The City's four discretely presented component units shown in aggregate on the face of the government-wide financial statements have individual information presented in the form of combining statements immediately following the fund financial statements of the primary government.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data presented in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 32 through 77.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees. The City adopts an annual appropriated budget for its general, debt service and certain special revenue funds. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. Required supplementary information can be found on pages 81 through 85 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $667.4 million at the close of the most recent fiscal year.

By far the largest portion of the City's net position, 85% or $568.7 million, reflects its net investment in capital assets (e.g., land, buildings, and infrastructure), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending as of September 30, 2017. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

COMPARATIVE SCHEDULE OF NET POSITION
September 30, 2017 and 2016

	Governmental Activities		Business-type Activities		Totals	
Amounts in (000's)	2017	2016	2017	2016	2017	2016
Current and other assets	$ 100,715	$ 123,587	$ 96,879	$ 87,791	$ 197,594	$ 211,378
Capital assets	591,948	549,644	411,812	405,282	1,003,760	954,926
Total Assets	692,663	673,231	508,691	493,073	1,201,354	1,166,304
Total Deferred Outflows of Resources	16,603	17,449	2,659	2,771	19,262	20,220
Other liabilities	16,163	29,248	10,071	9,430	26,234	38,678
Long-term liabilities	306,896	292,323	218,186	204,177	525,082	496,500
Total Liabilities	323,059	321,571	228,257	213,607	551,316	535,178
Total Deferred Inflows of Resources	1,673	2,074	225	272	1,898	2,346
Net Position						
Net invesment in capital assets	340,298	304,720	228,369	225,650	568,667	530,370
Restricted	21,152	24,902	9,116	8,549	30,268	33,451
Unrestricted	23,084	37,413	45,383	47,766	68,467	85,179
Total Net Position	$ 384,534	$ 367,035	$ 282,868	$ 281,965	$ 667,402	$ 649,000

An additional portion of the City's net position, 4.5% or $30.3 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* of 10.3% or $68.5 million, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Government-wide Financial Analysis (continued)

COMPARATIVE SCHEDULE OF CHANGES IN NET POSITION
For the Years Ended September 30, 2017 and 2016

	Governmental Activities		Business-type Activities		Totals	
Amounts in (000's)	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Revenues						
Program revenues:						
Charges for services	$ 18,057	$ 19,896	$ 62,474	$ 63,921	$ 80,531	$ 83,817
Operating grants and contributions	1,825	1,740	50	50	1,875	1,790
Capital grants and contributions	29,997	19,241	6,675	9,418	36,672	28,659
General revenues:						
Property taxes	39,052	37,228			39,052	37,228
Sales tax	41,330	45,967			41,330	45,967
Franchise and other taxes	8,535	8,231			8,535	8,231
Other	3,474	2,597	644	679	4,118	3,276
Total Revenues	142,270	134,900	69,843	74,068	212,113	208,968
Expenses						
General government	23,395	18,591			23,395	18,591
Administrative services	5,514	6,643			5,514	6,643
Public safety - Police	26,138	22,979			26,138	22,979
Public safety - Fire	14,197	14,196			14,197	14,196
Public safety - EMS	1,803	1,722			1,803	1,722
Public works	27,075	22,828			27,075	22,828
Parks and recreation	7,870	6,215			7,870	6,215
Community development	5,564	5,485			5,564	5,485
Environmental and neighborhood services	6,065	5,903			6,065	5,903
Interest on long-term debt	9,393	9,779			9,393	9,779
Utility			29,342	29,391	29,342	29,391
Regional Airport			14,346	12,485	14,346	12,485
Surface Water			16,812	17,126	16,812	17,126
Solid Waste Management			6,197	5,927	6,197	5,927
Total Expenses	127,014	114,341	66,697	64,929	193,711	179,270
Increase (decrease) in net position before transfers	15,256	20,372	3,146	9,139	18,402	29,511
Transfers	2,243	2,176	(2,243)	(2,176)		
Increase (decrease) in net position	17,499	22,548	903	6,963	18,402	29,511
Net position - beginning	367,035	344,487	281,965	275,002	649,000	619,489
Net position - ending	$ 384,534	$ 367,035	$ 282,868	$ 281,965	$ 667,402	$ 649,000

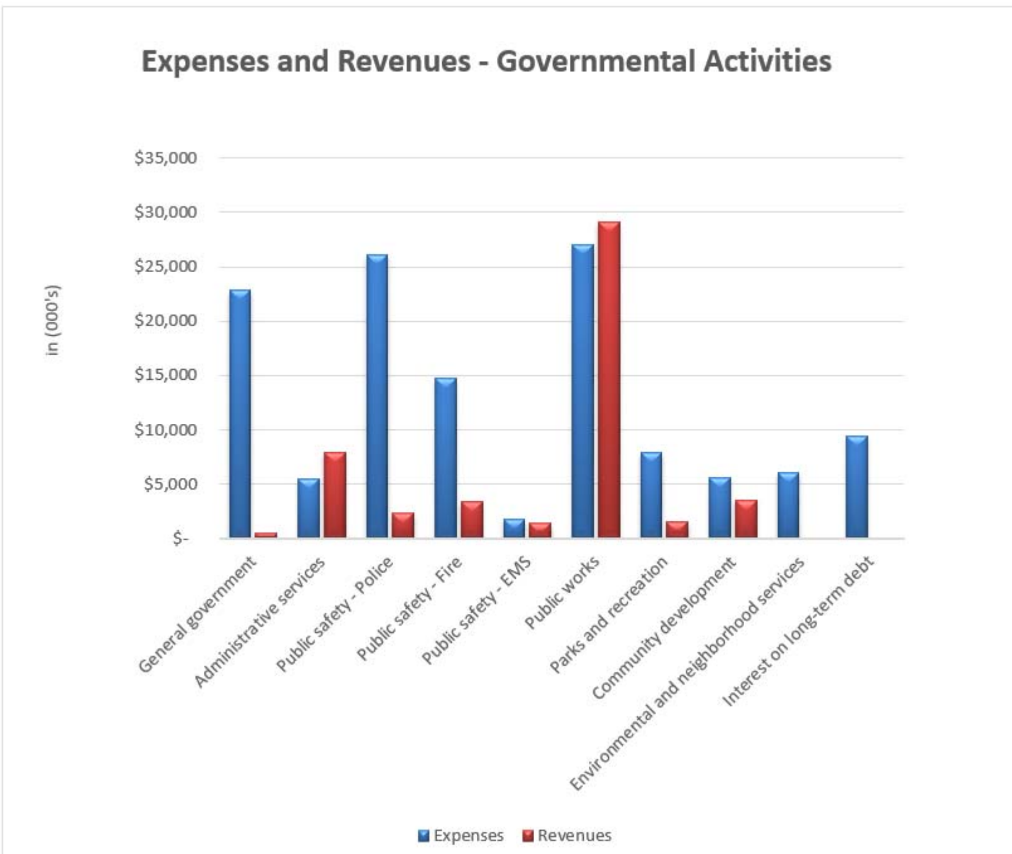
The City's net position increased by approximately $18.4 million, which was the result of an increase in both governmental activities and business-type activities net position. The increase in the net position of governmental activities was the result of capital contributions of $22.6 million and an increase in various sources of revenues, including property tax and operating grants and contributions. The increase in the net position of business-type activities was primarily attributed total revenues exceeding overall expenses.

Governmental Activities

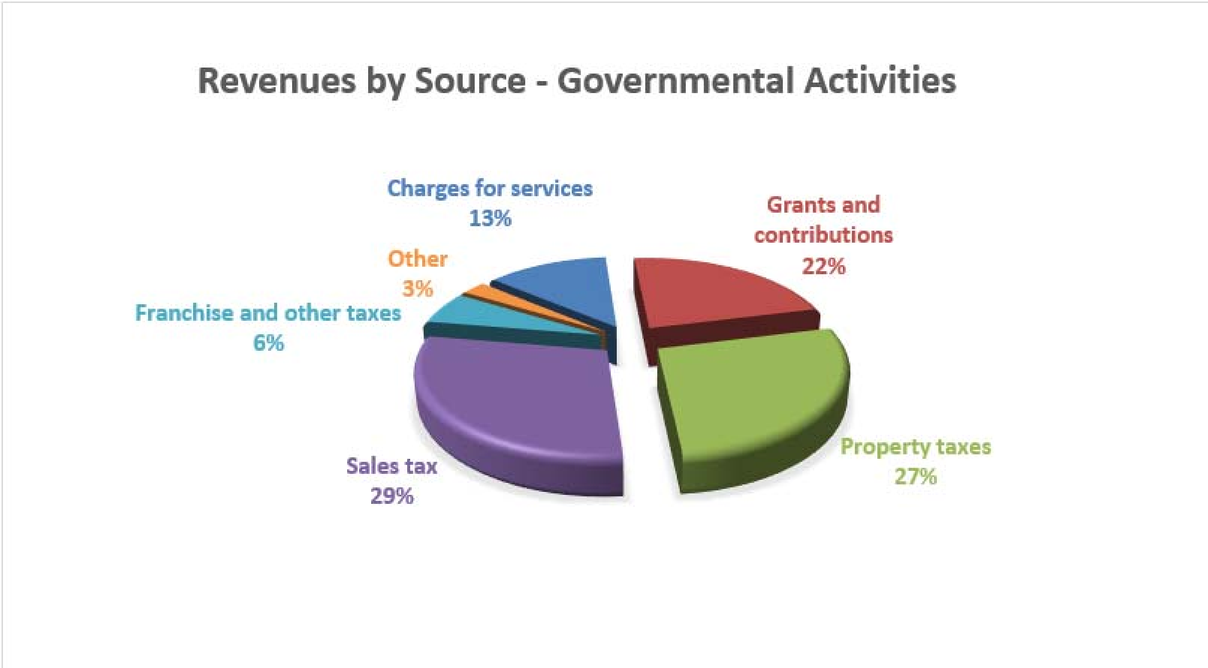
Governmental activities increased the City's net position by $17.5 million. Key elements of this increase are as follows:

- An increase in property tax revenues by $1.8 million is due to an increase in the property valuation.

- Capital grants and contributions of $30 million includes: $10.7 million from Imperial Redevelopment District for the University Blvd. project, $4.9 million from Fort Bend County and Texas Department of Transportation for various street projects, $8.9 million in developer and easement donations, $4.2 million from ACE LLC and Sugar Land 4B Corporation for the Performing Art Center facility and TIRZ 4 Parking.



Governmental Activities (continued)

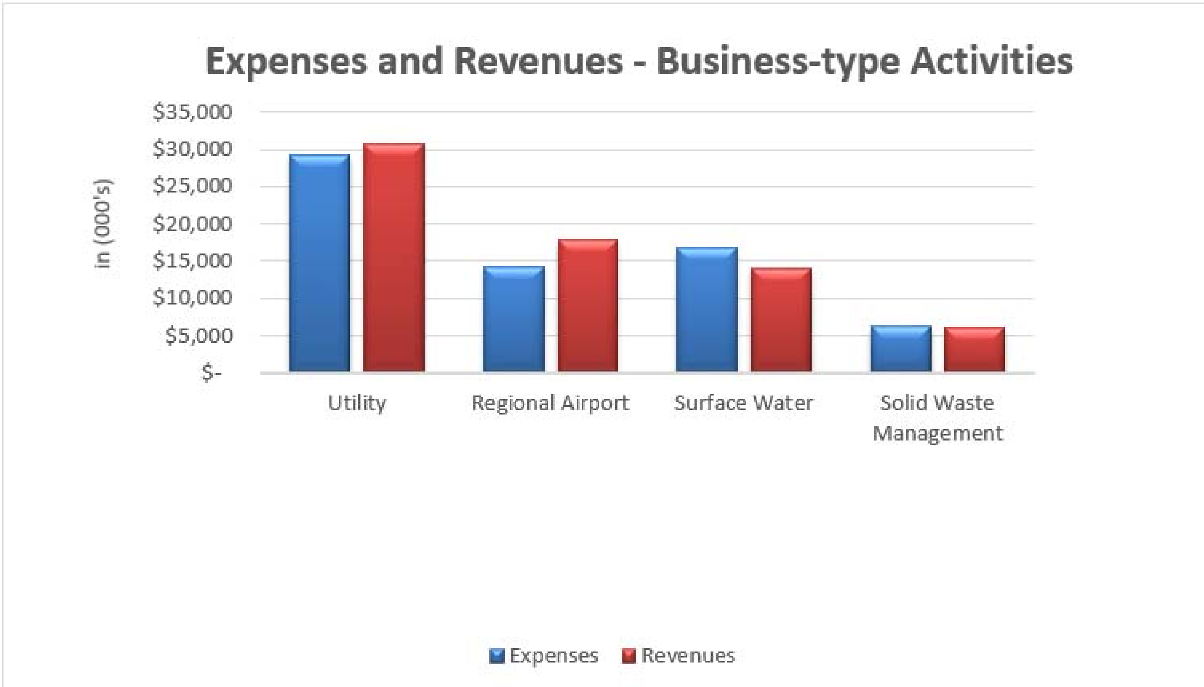


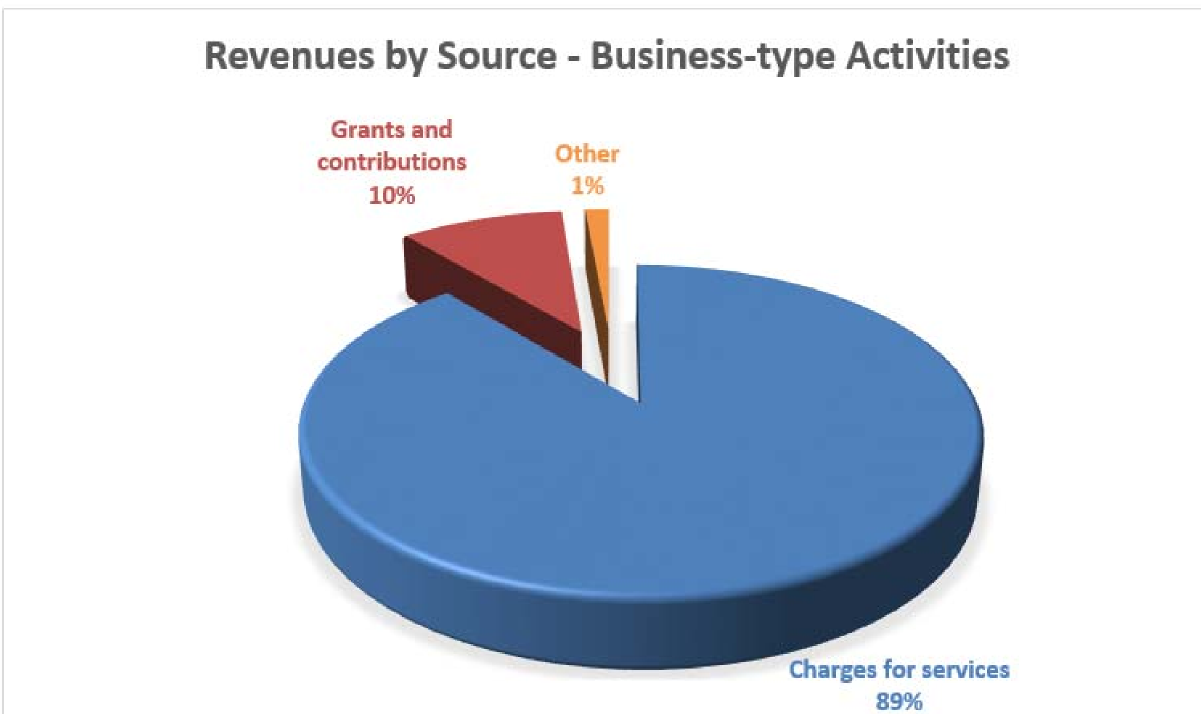
Business-type Activities

Business-type activities increased the City's net position by $0.9 million. Key elements of this increase are as follows:

The net position of Airport Fund increased by $3.7 million mainly due to capital contribution of $3.5 million from Texas Department of Transportation and increase in the fuel sales due to Super Bowl LI, held at NRG stadium in Houston. The increase in net position of Airport Fund is offset by the decrease in net position of Utility and Surface Water Fund by $0.3 million and $2.5 million respectively.

Business-type Activities (continued)





Financial Analysis of the City's Funds

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

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

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $77.8 million, a decrease of $9 million from the prior year. Approximately 36% of the combined ending fund balances, $28.0 million, is *available for spending* at the government's discretion *(unassigned fund balance).*

The most significant change in fund balance was in the Capital Projects Fund with decreases of $5.9 million. This decrease is primarily due to capital outlay related to construction projects including various improvements to street, parks and facilities.

Fund balance in the General Fund increased from prior year, by $0.6 million, resulting in an ending fund balance of $29.1 million at year end. The unassigned fund balance of $28.0 million represents 34% of total fund expenditures.

The Debt Service Fund has a total fund balance of $5.5 million at year end, all of which is restricted for the payment of debt service. The net decrease in fund balance during the current year in the Debt Service Fund was $0.2 million.

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

The Utility Fund has unrestricted net position at fiscal year-end of $25.4 million. The Surface Water Fund has approximately $15.3 million in unrestricted net position, and the Airport Fund's unrestricted net position amounted to approximately $3.0 million. Other factors concerning the finances of the City's Proprietary Funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Budget estimates for operating revenues between the original and final amended budget changed by $1.9 million due to the reclassification of transfers into sales tax.

During the year there were increases between the original and final amended budget expenditure appropriations of $4.3 million due to appropriations of carry-over from the prior year.

There were no significant differences between final amended expenditures and actual expenditures in fiscal year 2017. The review of the final amended budget versus the actual for the general fund, reflected a positive budget variance in the amount of $2.7 million.

Capital Assets and Debt Administration

Capital Assets

At the end of the current fiscal year 2017, the City's governmental activities and business-type activities had invested $591.9 million and $411.8 million, respectively, in a variety of capital assets and infrastructure, as reflected in the following schedule. This represents a net increase of $42.3 million or 7.7% over the end of last fiscal year for governmental activities and a change of $6.5 million or 1.6% for business-type activities.

	Governmental Activities		Business-Type Activities		Totals	
Amounts in (000's)	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Land and intangibles	$ 89,682	$ 86,380	$ 25,736	$ 21,917	$ 115,419	$ 108,297
Construction in progress	60,241	150,132	48,912	42,821	109,153	192,953
Infrastructure	219,695	206,858	316,184	323,575	535,879	530,433
Buildings and improvements	199,103	89,453	16,510	12,719	215,613	102,172
Equipment and furniture	23,227	16,820	4,470	4,250	27,696	21,070
Total Capital Assets	$ 591,948	$ 549,643	$ 411,812	$ 405,282	$ 1,003,759	$ 954,925

The decrease in construction in progress for governmental activities is due to completion of various projects including; Performing Art Center, TIRZ 4 Parking, Brazos River Park Phase II and University North to Imperial.

The increase in construction in progress for business-type activities is due to the construction activities in various areas including; Waste water collection rehab. Project, Lift station rehab. Project, Riverstone ground water plant improvement and Surface water transmission line to Riverstone ground water plant.

Additional information on the City's capital assets can be found in Note 4 to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the City had total bonds, certificates of obligation, and other obligations outstanding of $525.1 million. Of this amount, $90.9 million was general obligation debt (including $1.8 million of dissolved utility district bonds), and $154.1 million represents bonds secured solely by specified revenue sources (i.e. revenue bonds). Certificates of obligation and tax notes account for $211.5 million and $3.2 million, respectively. The City's net pension liability as of September 30, 2017 is $34.0 million.

	Governmental Activities		Business-Type Activities		Totals	
Amounts in (000's)	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
General obligation bonds	$ 83,880	$ 84,390	$ 7,030	$ 7,660	$ 90,910	$ 92,050
Revenue bonds	48,865	50,655	105,220	91,355	154,085	142,010
Certificates of obligation	118,058	104,245	93,322	93,470	211,380	197,715
Tax note	3,193	3,965			3,193	3,965
Premiums or discounts	17,513	16,803	8,229	7,757	25,742	24,560
Capital leases payable		260			-	260
Net pension liability	29,961	27,415	4,027	3,598	33,988	31,013
Other obligations	5,427	4,590	358	338	5,785	4,928
	$ 306,896	$ 292,323	$ 218,186	$ 204,178	$ 525,082	$ 496,501

The net increase in debt for the year was $28.6 million or 5.8%. This was primarily due to the issuance of new debt and an increase in the City's net pension liability.

Capital Assets and Debt Administration (continued)

Long-Term Debt (continued)

The most recent ratings on debt issues are as follows:

	Standard and Poor's	Fitch Investors Service
General obligation bonds	AAA	AAA
Revenue bonds	AA+	AA+

Both the Sugar Land Development Corporation (SLDC) and the Sugar Land 4B (SL4B) Corporation, component units of the City, have issued debt. SLDC bonds are rated "A1" and "A+" from Moody's and Standard & Poor's, respectively. SL4B bonds are rated "Aa3" and "A+" from Moody's and Standard & Poor's, respectively.

Additional information on the City's long-term debt can be found in Note 5 to the financial statements.

Imperial Redevelopment Agreement

On May 3, 2016, the City Council approved the third amendment to the Imperial Redevelopment Agreement. This agreement defines the conditions for the Imperial Redevelopment District's participation in the extension of a roadway and bridge from US 90A at University Boulevard N to the terminus of Stadium Drive, including a bridge across Oyster Creek and the Union Pacific Railroad Spur at Nalco Champion. The Imperial Redevelopment District (IRD) issued Unlimited Tax Road Bonds Series 2016 of $12,135,000 and Tax Increment Contract Revenue Bonds Series 2016 of $4,980,000 to fund their share of the roadway project and bridge. Funding in the amount of $10,650,000, representing the District's share of the roadway and bridge, was received by the City on October 14, 2016. On August 16, 2016, the City approved a Tri-Party Funding Agreement between the City, Tax Increment Reinvestment Zone #3 (TIRZ #3) and the IRD to transfer the Tax Increments in the Tax Increment Fund, less certain deductions, to the IRD to support repayment of the Tax Increment Contract Revenue Bonds to be issued to finance certain components of the TIRZ plan. The City was responsible for a portion of the roadway, the UPRR crossing and the intersection and signal at US90A. Fort Bend County contributed $1.3 million toward the roadway project as well.

Economic Factors and Next Year's Budgets and Rates

As of September 2017, the Houston-Sugar Land-Baytown MSA unemployment rate was 4.8%, the Texas unemployment rate was 4.2% and the U.S. unemployment rate was 4.0%. The City experienced a downturn in sales tax revenues during the last three months of the fiscal year and recognized that certain patterns and facts were beginning to suggest further declines in fiscal year 2018. Fiscal year 2017 ended with collections 5.34% lower than original budget, and 0.69% lower than year-end projections. The adopted FY18 budget held sales tax revenue flat based on FY17 projected revenue. FY18 property tax revenues are based on the adopted 2017 tax rate of $0.31762 per $100 taxable value and a net taxable value of $12.62 billion to the City after TIRZ incremental values are deducted. The fiscal year 2018 budget was amended in October to reduce general fund expenditures to accommodate a lower than anticipated revenue stream from property and sales taxes compared to the original budget, and provide capacity to address needs that arose from Hurricane Harvey.

Economic Factors and Next Year's Budgets and Rates (continued)

The main objective of this budget was to complete the annexation of New Territory and Greatwood, which is being funded with money set aside during the last 10 years specifically for this purpose. At the same time, economic challenges were thrown at the City due to the decline in the oil and gas industry, leading to a reduction and prioritization of available resources. The FY18 budget highlights the City's commitment to financial integrity and long-term resiliency. It demonstrates the City's continued efforts to act in best interests of its residents by taking proactive, and fiscally conservative actions that maintain the organizations financial well-being. Unlike most years, this budget was confronted with dynamic events, including a natural disaster in the form of Hurricane Harvey. This natural disaster placed significant downward pressure on one of the City's largest revenue sources, sales tax. In addition to reducing sales tax revenue estimates, the budget also required an adjustment to reflect the revenues associated with the adopted tax rate. Maintaining a balanced budget requires that as revenues are reduced, recurring expenditures must also be reduced. Ultimately, it was a combination of the economy, a natural disaster, and the adopted tax rate that shaped the final amended budget.

The amended total budget for fiscal year 2018 is $228.71 million and includes $21.6 million in capital projects funding. The amended budget for FY18 continues to incorporate strategic changes that are recommended to reduce the City's reliance on sales tax as a revenue stream for recurring operations. The City has historically transferred 10% of General Fund sales tax to support the Pay-As-You-Go (PAYG) capital improvement program. With the slowdown in the City's sales tax collections, the funding mechanism for supporting these recurring capital improvement costs has evaporated and highlighted the need to begin taking actions to implement a long-term solution. The FY18 budget incorporates the first steps in this strategy by forecasting no growth in the base sales tax estimates for the upcoming year, as well as transitioning recurring PAYG capital rehabilitation projects into departmental operating budgets using a phased approach. This will allow these projects to transition to a more stable funding source and ensure that critical maintenance items, such as road repairs, can continue when there is downturn in sales tax.

The budget has been developed to serve an estimated population of 117,868 as of January 1, 2018, a 34% increase from 2017, with no impact to existing residents. This population includes the Greatwood and New Territory communities, which will be annexed into the City on December 12, 2017.

Approximately half of the General Fund operating budget is used to fund a robust public safety program. Drivers of the budget include annexation related expenses (which are covered by debt reduction funds from the annexed areas), a 2% pool for merit increases for existing employees effective January 1, full year implementation of 2017 merit increases, a 4% increase in health benefits costs, and contractual costs such as landscaping, custodial services, and the Comcast franchise agreement.

Outside of increases due to annexation, there are no planned new positions or services incorporated in the budget. The budget for FY18 incorporates the addition of 19.5 new positions due to annexation. The growth in population from annexation triggers implementation of a new 311 Contact Center to improve customer service citywide.

Economic Factors and Next Year's Budgets and Rates (continued)

The 2017 adopted tax rate is $0.31762 per $100 valuation, which is effectively a 1.5% increase over the 2016 rate. The homestead exemption remains at 10% for 2017, as does the optional exemption of $70,000 for over 65/disabled.

In the Enterprise Funds there are no changes to water, wastewater, or surface water rates. This is consistent with the forecast that has been shared with City Council for the last several years. In fact, the City has not adjusted water or wastewater rates since 2011, minimizing impact to customers while the surface water rates were being implemented. Solid Waste includes a 2.5% increase to residential rates based on the contract with Republic Services, which is based on a 2.5% CPI increase. The new rate will be effective January 1, 2018 and will increase from $18.00 to $18.45 per month with no changes to service levels.

The FMPS contains guidance on evaluating user fees for an annual CPI adjustment and for calculation of new fees. There are only two new fees included which are based on requests for expedited food permits, and late renewals of rental licenses. In FY18, an increase of 2.10% is incorporated in certain fees based on changes in the CPI between 2016 and 2017. The full cost of fire service shows a small increase from the current fee, going from $17.09 to $17.68 per month. Fee adjustments are effective January 1, 2018.

Requests for Information

This financial report is designed to provide a general overview of the City of Sugar Land's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to Alka B. Shah, Chief Accountant, City Hall, 2700 Town Center Boulevard North, Sugar Land, TX 77479, telephone (281) 275-2745 or for general City information, visit the City's website at www.sugarlandtx.gov.

BASIC FINANCIAL STATEMENTS

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CITY OF SUGAR LAND, TEXAS

STATEMENT OF NET POSITION

September 30, 2017

	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Current assets:				
Cash and cash equivalents	$ 22,029,708	$ 1,466,273	$ 23,495,981	$ 1,811,499
Cash with fiscal agent	488,000		488,000	
Investments	61,267,210	38,352,244	99,619,454	4,973,763
Accounts receivable, net of allowance for doubtful accounts	13,482,439	4,731,349	18,213,788	1,005,796
Interest receivable	152,638	293,076	445,714	29,651
Internal balances	(7,901,531)	7,901,531		
Due from other governments	4,081,783	50,000	4,131,783	
Inventories	211,199	306,920	518,119	
Prepaid items	348,391	7,908	356,299	3,139
Restricted cash and cash equivalents	3,564,943	8,079,913	11,644,856	413,709
Restricted investments	2,989,786	35,690,235	38,680,021	2,739,382
Total current assets	100,714,566	96,879,449	197,594,015	10,976,939
Non-current assets:				
Capital assets not being depreciated:	149,466,319	74,013,653	223,479,972	
Capital assets net of depreciation:	442,481,226	337,798,088	780,279,314	
Total non-current assets	591,947,545	411,811,741	1,003,759,286	
Total Assets	692,662,111	508,691,190	1,201,353,301	10,976,939
Deferred Outflows of Resources				
Deferred charge on refunding	1,512,396	630,858	2,143,254	109,712
Deferred outflows relating to pension activities	15,090,613	2,028,295	17,118,908	
Total Deferred Outflows of Resources	16,603,009	2,659,153	19,262,162	109,712
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	14,098,940	5,945,852	20,044,792	21,185
Accrued interest	1,596,561	1,100,547	2,697,108	181,936
Unearned revenue	345,741	15,900	361,641	
Customer deposits	120,173	3,009,582	3,129,755	
Total current liabilities	16,161,415	10,071,881	26,233,296	203,121
Non-current liabilities:				
Due within one year	17,637,142	9,717,398	27,354,540	1,994,599
Due in more than one year	289,258,994	208,468,446	497,727,440	30,184,099
Total non-current liabilities	306,896,136	218,185,844	525,081,980	32,178,698
Total Liabilities	323,057,551	228,257,725	551,315,276	32,381,819
Deferred Inflows of Resources				
Deferred inflows relating to pension activities	1,673,209	224,892	1,898,101	
Total Deferred Inflows of Resources	1,673,209	224,892	1,898,101	
Net Position				
Net investment in capital assets	340,297,843	228,368,656	568,666,499	
Restricted:				
Debt service	11,911,559	9,116,186	21,027,745	2,940,710
Economic development activities	7,655,992		7,655,992	1,690,087
Public safety	189,342		189,342	
Tourism & marketing	1,395,355		1,395,355	
Unrestricted	23,084,269	45,382,884	68,467,153	(25,925,965)
Total Net Position	$ 384,534,360	$ 282,867,726	$ 667,402,086	$ (21,295,168)

See Notes to Financial Statements.

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2017

		Program Revenue		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary government				
Governmental Activities:				
General government	$ 23,393,933	$ 492,105	$	$
Administrative services	5,514,367	6,598,604	1,339,389	
Public safety - Police	26,137,845	2,189,953	148,828	
Public safety - Fire	14,196,831	3,139,758	93,135	211,916
Public safety - EMS	1,803,131	1,426,438		
Public works	27,074,624	556,641	22,831	28,558,089
Parks and recreation	7,870,047	591,610	62,410	923,410
Community development	5,563,555	3,061,505	158,313	303,304
Environmental and neighborhood services	6,064,691			
Interest on long-term debt	9,393,095			
Total governmental activities	127,012,119	18,056,614	1,824,906	29,996,719
Business-type activities:				
Utility	29,341,563	28,409,379		2,433,875
Regional Airport	14,345,583	13,539,743	50,000	4,241,193
Surface Water	16,812,428	14,049,110		
Solid Waste Management	6,196,978	6,475,296		
Total business-type activities	66,696,552	62,473,528	50,000	6,675,068
Total primary government	$ 193,708,671	$ 80,530,142	$ 1,874,906	$ 36,671,787
Component Units				
Sugar Land 4B Corporation	$ 7,450,048	$	$ 155,403	$
Sugar Land Town Square Tax Increment Reinvestment Zone No. 1	1,380,860			
Sugar Land Reinvestment Zone No. 3	356,677			
Sugar Land Reinvestment Zone No. 4	30,368			
Total component units	$ 9,217,953	$	$ 155,403	$

See Notes to Financial Statements.

	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			
Functions/Programs	Governmental Activities	Business-type Activities	Total	Component Units
Primary government				
Governmental Activities:				
General government	$ (22,901,828)	$	$ (22,901,828)	
Administrative services	2,423,626		2,423,626	
Public safety - Police	(23,799,064)		(23,799,064)	
Public safety - Fire	(10,752,022)		(10,752,022)	
Public safety - EMS	(376,693)		(376,693)	
Public works	2,062,937		2,062,937	
Parks and recreation	(6,292,617)		(6,292,617)	
Community development	(2,040,433)		(2,040,433)	
Environmental and neighborhood services	(6,064,691)		(6,064,691)	
Interest on long-term debt	(9,393,095)		(9,393,095)	
Total governmental activities	(77,133,880)		(77,133,880)	
Business-type activities:				
Utility		1,501,691	1,501,691	
Regional Airport		3,485,353	3,485,353	
Surface Water		(2,763,318)	(2,763,318)	
Solid Waste Management		278,318	278,318	
Total business-type activities		2,502,044	2,502,044	
Total primary government	$ (77,133,880)	$ 2,502,044	$ (74,631,836)	
Component Units				
Sugar Land 4B Corporation				$ (7,294,645)
Sugar Land Town Square Tax Increment Reinvestment Zone No. 1				(1,380,860)
Sugar Land Reinvestment Zone No. 3				(356,677)
Sugar Land Reinvestment Zone No. 4				(30,368)
Total component units				(9,062,550)
General revenues:				
Property taxes	39,052,391		39,052,391	2,292,107
Sales tax	41,330,120		41,330,120	5,904,303
Franchise and other taxes	8,535,339		8,535,339	
Investment earnings	826,905	561,113	1,388,018	91,096
Miscellaneous	2,645,117	83,106	2,728,223	80,016
Transfers	2,243,212	(2,243,212)		
Total general revenues and transfers	94,633,084	(1,598,993)	93,034,091	8,367,522
Change in net position	17,499,204	903,051	18,402,255	(695,028)
Net position - beginning	367,035,156	281,964,675	648,999,831	(20,600,140)
Net position - ending	$ 384,534,360	$ 282,867,726	$ 667,402,086	$ (21,295,168)

See Notes to the Financial Statements.

CITY OF SUGAR LAND, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 2,834,843	$ 947,234	$ 14,376,394	$ 2,639,178	$ 20,797,649
Investments	24,421,045	4,587,679	18,676,615	9,700,936	57,386,275
Receivables, net of allowance					
for uncollectibles	8,090,149	220,665		4,777,570	13,088,384
Interest receivable	54,154	14,102	47,979	26,694	142,929
Due from other governments	241,884		3,662,346	177,553	4,081,783
Inventories	211,199				211,199
Prepaid items	255,751			11,735	267,486
Restricted cash and cash equivalents	15		1,592,446	1,972,482	3,564,943
Restricted investments			498,550	2,491,236	2,989,786
Total Assets	$ 36,109,040	$ 5,769,680	$ 38,854,330	$ 21,797,384	$ 102,530,434
Liabilities					
Accounts payable	$ 4,233,011	$	$ 6,116,301	$ 1,774,666	$ 12,123,978
Accrued expenditures	1,177,864			4,838	1,182,702
Customer deposits	120,173				120,173
Due to other funds			6,600,000		6,600,000
Unearned revenue	321,950		23,791		345,741
Total Liabilities	5,852,998		12,740,092	1,779,504	20,372,594
Deferred Inflows of Resources					
Unavailable revenue	1,159,594	220,667		3,027,016	4,407,277
Total Deferred Inflows of Resources	1,159,594	220,667		3,027,016	4,407,277
Fund Balance					
Nonspendable:					
Inventories	211,199				211,199
Prepaid items	255,751			11,735	267,486
Restricted:					
Debt service		5,549,013		7,738,440	13,287,453
Capital projects			18,346,186		18,346,186
Economic development activities				7,655,992	7,655,992
Public safety				215,855	215,855
Tourism & marketing				1,395,355	1,395,355
Committed	376,995		7,768,052		8,145,047
Assigned	272,224				272,224
Unassigned	27,980,279			(26,513)	27,953,766
Total Fund Balance	29,096,448	5,549,013	26,114,238	16,990,864	77,750,563
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	$ 36,109,040	$ 5,769,680	$ 38,854,330	$ 21,797,384	$ 102,530,434

See Notes to Financial Statements.

CITY OF SUGAR LAND, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

September 30, 2017

Total fund balance, governmental funds		$ 77,750,563
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. The cost of the assets is $905,343,942 and the accumulated depreciation is $317,359,120.		587,984,822
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.		4,407,277
Deferred charge on refunding amortized over the shorter of the life of the refunded or refunding debt, therefore, are not reported in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.		1,512,396
Long-term liabilities, including bonds payable, compensated absences, and sales tax payable are not due in the current period and, therefore, are not reported as liabilities in the fund financial statements. Liabilities at year end related to bonds payable, compensated absences, and sales tax payable consists of:		
Bonds payable, at maturity	$ (253,995,771)	
Accrued interest on the bonds	(1,596,561)	
Premium/discount of bonds payable	(17,512,512)	
Compensated absences	(2,904,149)	
Sales tax payable	(716,858)	
Net pension liability	(29,960,937)	
		(306,686,788)
Deferred outflows and deferred inflows relating to pension activities are amortized over the expected remaining service lives of all employees that are provided with pensions through the pension plan, therefore, are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.		13,417,404
The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.		6,148,686
Net Position of Governmental Activities in the Statement of Net Position		$ 384,534,360

See Notes to Financial Statements.

CITY OF SUGAR LAND, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended September 30, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues					
Taxes:					
Property taxes	$ 21,127,721	$ 17,871,342	$	$	$ 38,999,063
Sales tax	35,854,284			5,975,714	41,829,998
Franchise and other taxes	6,160,773			2,374,566	8,535,339
Licenses and permits	3,052,646				3,052,646
Fines and forfeitures	1,550,428			2,433,435	3,983,863
Charges for services	11,167,633		347,220	154,084	11,668,937
Investment earnings	332,383	34,294	307,387	129,111	803,175
Intergovernmental	657,843		18,423,700	2,526,905	21,608,448
Other	423,946	1,118,103	2,269,660	532,779	4,344,488
Total Revenues	80,327,657	19,023,739	21,347,967	14,126,594	134,825,957
Expenditures					
Current:					
General government	15,339,082			4,102,215	19,441,297
Administrative services	4,032,334	1,652,432	343,329	779,810	6,807,905
Public safety - Police	23,471,122		25,024	1,645,564	25,141,710
Public safety - Fire	12,947,595		19,050		12,966,645
Public safety - EMS	1,711,485				1,711,485
Public works	9,510,418		5,504,444		15,014,862
Parks and recreation	4,911,262		471,827		5,383,089
Community development	5,163,724				5,163,724
Environmental and neighborhood services	5,099,366		13,492		5,112,858
Debt Service:					
Principal		14,359,483		1,790,000	16,149,483
Interest and fiscal charges		7,762,314		2,397,290	10,159,604
Bond issuance costs			355,510		355,510
Capital Outlay			50,887,348	583,075	51,470,423
Total Expenditures	82,186,388	23,774,229	57,620,024	11,297,954	174,878,595
Excess (deficiency) of revenues over expenditures	(1,858,731)	(4,750,490)	(36,272,057)	2,828,640	(40,052,638)
Other Financing Sources (Uses)					
Certificates of obligation issued			19,060,000		19,060,000
General obligation bonds issued			7,570,000		7,570,000
Premium on debt issued		6,241	2,039,223		2,045,464
Sale of capital assets	107,275				107,275
Transfers in	3,772,467	4,616,779	2,603,474	861,380	11,854,100
Transfers (out)	(1,466,910)	(73,203)	(897,500)	(7,173,275)	(9,610,888)
Total Other Financing Sources and Uses	2,412,832	4,549,817	30,375,197	(6,311,895)	31,025,951
Net change in fund balance	554,101	(200,673)	(5,896,860)	(3,483,255)	(9,026,687)
Fund balance - beginning	28,542,347	5,749,686	32,011,098	20,474,119	86,777,250
Fund balance - ending	$ 29,096,448	$ 5,549,013	$ 26,114,238	$ 16,990,864	$ 77,750,563

See Notes to Financial Statements.

CITY OF SUGAR LAND, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2017

Net change in fund balances - total governmental funds:		$ (9,026,687)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.		
This is the amount by which depreciation ($18,437,042) is exceeded by capital outlays ($52,512,360) in the current period.		34,075,318
Donated infrastructure does not represent current assets, and therefore is not recognized as revenue in governmental fund financials. The total amount is, however, reflected in the government wide financial statements as program revenue.		8,095,257
Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.		(5,802)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.		(1,605,021)
Pension contributions made after the net pension liability date are reported as expenditures in the governmental funds and are reported as deferred outflows on the face of the statement of net position		4,995,958
Governmental funds report proceeds from new debt as a current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceed proceeds.		
Proceeds from the issuance of long term debt, plus premiums and interest, less issuance costs	(28,675,464)	
Repayment of long term debt principal	16,167,565	
		(12,507,899)
Bond issuance costs, deferred charges on bond refunding, and other debt charges which are treated as expenditures or other sources/uses in the fund basis financial statements are set up as assets and amortized in the Statement of Net Assets. The net change for each represents an increase/(decrease) in net assets.		
Bond premiums/discounts	1,335,885	
Gain/loss on refunding	(143,924)	
		1,191,961
Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds.		
Changes in accrued interest	(83,442)	
Changes in accrued compensated absences	(100,364)	
Pension expense for the pension plan measurement year	(7,843,797)	
		(8,027,603)
Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and information technology, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.		313,722
Change in net position of governmental activities		$ 17,499,204

See Notes to Financial Statements.

CITY OF SUGAR LAND, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2017

	Business-type Activities - Enterprise Funds					Governmental Activities
	Utility Fund	**Airport Fund**	**Surface Water Fund**	**Solid Waste Fund**	**Total**	**Internal Service Funds**
Assets						
Current assets:						
Cash and cash equivalents	$ 448,520	$ 203,818	$ 544,610	$ 269,325	$ 1,466,273	$ 1,232,059
Cash with fiscal agent						488,000
Investments	21,167,506	5,977,310	11,207,428		38,352,244	3,880,935
Accounts receivable, net of allowance for doubtful accounts	3,253,028	164,074	585,539	728,708	4,731,349	394,055
Due from other funds	5,600,000		3,000,000		8,600,000	
Receivables from other governments		50,000			50,000	
Interest receivable	174,738	18,377	99,961		293,076	9,709
Inventories	131,385	175,535			306,920	
Prepaid items	1,270	6,638			7,908	80,905
Restricted cash and cash equivalents	7,416,552	402,964	260,397		8,079,913	
Restricted investments	16,201,970	2,970,537	16,517,728		35,690,235	
Total current assets	54,394,969	9,969,253	32,215,663	998,033	97,577,918	6,085,663
Non-current assets:						
Capital assets not being depreciated:						
Land	2,321,552	20,140,022	804,373		23,265,947	
Construction in progress	27,629,106	11,477,876	9,804,807		48,911,789	
Intangibles	1,595,947		239,970		1,835,917	
Capital assets being depreciated:						
Infrastructure	358,990,938	46,113,408	105,632,855		510,737,201	
Buildings and improvements	5,597,869	17,999,696	393,788		23,991,353	
Equipment and furniture	4,688,381	5,081,338	256,086	55,358	10,081,163	11,936,661
Intangibles	127,704		891,308		1,019,012	30,354
Less accumulated depreciation	(158,396,755)	(27,692,656)	(21,932,930)	(8,300)	(208,030,641)	(8,004,292)
Total non-current assets	242,554,742	73,119,684	96,090,257	47,058	411,811,741	3,962,723
Total Assets	296,949,711	83,088,937	128,305,920	1,045,091	509,389,659	10,048,386
Deferred Outflows of Resources						
Deferred charge on refunding	327,129	303,729			630,858	
Deferred outflows relating to pension activities	1,053,416	649,845	274,440	50,594	2,028,295	
Total Deferred Outflows of Resources	1,380,545	953,574	274,440	50,594	2,659,153	
Liabilities						
Current liabilities:						
Accounts payable and accrued expenses	2,751,810	835,588	1,789,380	569,074	5,945,852	145,059
Accrued interest	396,233	77,055	627,259		1,100,547	
Due to other funds		2,000,000			2,000,000	
Customer deposits	2,926,580	83,002			3,009,582	
Unearned revenue		15,900			15,900	
Claims and judgments						647,201
Total current liabilities	6,074,623	3,011,545	2,416,639	569,074	12,071,881	792,260
Non-current liabilities:						
Due within one year	5,619,909	840,931	3,256,348	210	9,717,398	
Due in more than one year	83,562,375	11,572,424	109,299,362	7,303	204,441,464	1,805,909
Net pension liability	2,091,455	1,290,204	544,873	100,450	4,026,982	
Total non-current liabilities	91,273,739	13,703,559	113,100,583	107,963	218,185,844	1,805,909
Total Liabilities	97,348,362	16,715,104	115,517,222	677,037	230,257,725	2,598,169
Deferred Inflows of Resources						
Deferred inflows relating to pension activities	116,800	72,053	30,429	5,610	224,892	
Total Deferred Inflows of Resources	116,800	72,053	30,429	5,610	224,892	
Net Position						
Net investment in capital assets	168,819,262	63,346,875	(3,844,539)	47,058	228,368,656	3,962,723
Restricted:						
Debt service	6,618,534	914,571	1,583,081		9,116,186	
Unrestricted	25,427,298	2,993,908	15,294,167	365,980	44,081,353	3,487,494
Total Net Position	$200,865,094	$ 67,255,354	$ 13,032,709	$ 413,038	281,566,195	$ 7,450,217

The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the Business Activities of the Statement of Net Position.	1,301,531
Total Net Position per Government-Wide financial statements	$282,867,726

See Notes to Financial Statements.

CITY OF SUGAR LAND, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

For the Year Ended September 30, 2017

	Business-type Activities - Enterprise Funds					Governmental Activities
	Utility Fund	Airport Fund	Surface Water Fund	Solid Waste Fund	Total	Internal Service Funds
Revenues						
Charges for services	$ 28,423,400	$ 13,543,538	$ 14,096,597	$ 6,477,588	$ 62,541,123	$ 12,668,173
Total Operating Revenues	28,423,400	13,543,538	14,096,597	6,477,588	62,541,123	12,668,173
Operating Expenses						
Personnel services	4,400,576	2,795,401	1,107,574	228,185	8,531,736	29,227
Supplies and materials	171,842	6,321,496	76,442	5,318	6,575,098	1,222,278
Contractual services	6,783,987	1,642,748	2,693,249	5,917,607	17,037,591	155,782
Repairs and maintenance	4,847,094	519,749	1,708,700	9,307	7,084,850	58,602
Other expenses	724,493	381,703	307,807	33,133	1,447,136	10,114,037
Depreciation	9,623,569	2,293,967	6,199,869	4,428	18,121,833	974,634
Total Operating Expenses	26,551,561	13,955,064	12,093,641	6,197,978	58,798,244	12,554,560
Operating income (loss)	1,871,839	(411,526)	2,002,956	279,610	3,742,879	113,613
Non-Operating Revenues (Expenses)						
Interest and investment revenue	353,198	30,746	177,093	76	561,113	23,730
Intergovernmental		50,000			50,000	
Gain (loss) on disposal of capital assets	19,913				19,913	164,379
Interest expense	(2,815,404)	(391,519)	(4,683,787)		(7,890,710)	
Total Non-operating Revenue (Expenses)	(2,442,293)	(310,773)	(4,506,694)	76	(7,259,684)	188,109
Income (loss) before contributions and transfers	(570,454)	(722,299)	(2,503,738)	279,686	(3,516,805)	301,722
Capital contributions	2,433,875	4,241,193			6,675,068	
Transfers in		197,670		44,200	241,870	
Transfers out	(2,185,082)			(300,000)	(2,485,082)	
Change in net position	(321,661)	3,716,564	(2,503,738)	23,886	915,051	301,722
Total net position - beginning	201,186,755	63,538,790	15,536,447	389,152	280,651,144	7,148,495
Total net position - ending	$ 200,865,094	$ 67,255,354	$ 13,032,709	$ 413,038	$ 281,566,195	$ 7,450,217

Change in net position per above	$ 915,051
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of certain internal service funds is reported with Business Activities.	(12,000)
Change in Business-Type Activities in Net Position per Government-Wide Financial Statements	$ 903,051

See Notes to Financial Statements.

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CITY OF SUGAR LAND, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2017

	Business-type Activities - Enterprise Funds					Governmental Activities
	Utility Fund	Airport Fund	Surface Water Fund	Solid Waste Fund	Total	Internal Service Funds
Cash Flows from Operating Activities:						
Receipts from customers and users	$ 28,171,904	$ 13,500,542	$ 14,031,073	$ 6,392,661	$ 62,096,180	$
Receipts from interfund charges for services						13,185,486
Disbursed for personnel services	(4,198,388)	(2,637,168)	(1,046,135)	(198,347)	(8,080,038)	(29,227)
Disbursed for goods and services	(12,556,344)	(9,748,159)	(3,447,360)	(5,915,671)	(31,667,534)	(12,993,396)
Net cash provided (used) by operating activities	11,417,172	1,115,215	9,537,578	278,643	22,348,608	162,863
Cash Flows from Non-Capital Financing Activities:						
Transfers from other funds		197,670		44,200	241,870	
Transfers to other funds	(2,185,082)			(300,000)	(2,485,082)	
Operating grants and contributions		65,900			65,900	
Net cash provided (used) by noncapital financing activities	(2,185,082)	263,570		(255,800)	(2,177,312)	
Cash Flows from Capital and Related Financing Activities:						
Proceeds from the sale of equipment	19,913				19,913	166,398
Proceeds from the sale of bonds	7,256,291	2,055,000	13,470,046		22,781,337	
Interest payments on debt	(2,802,948)	(347,885)	(4,633,791)		(7,784,624)	
Principal payments on debt	(5,256,802)	(757,399)	(2,733,198)		(8,747,399)	
Acquisition and construction of capital assets	(10,535,991)	(406,508)	(7,409,285)	(29,548)	(18,381,332)	(1,115,362)
Net cash provided (used) by capital and related financing activities	(11,319,537)	543,208	(1,306,228)	(29,548)	(12,112,105)	(948,964)
Cash Flows from Investing Activities						
Purchase of investments		(3,697,018)	(12,231,299)		(15,928,317)	(634,085)
Sale of investments	3,392,927				3,392,927	
Interest received	287,218	24,675	107,153	76	419,122	19,639
Net cash provided (used) by investing activities	3,680,145	(3,672,343)	(12,124,146)	76	(12,116,268)	(614,446)
Net increase (decrease) in cash and equivalents	1,592,698	(1,750,350)	(3,892,796)	(6,629)	(4,057,077)	(1,400,547)
Cash and equivalents, beginning of year	6,272,374	2,357,132	4,697,803	275,954	13,603,263	2,632,606
Cash and equivalents, at end of year	$ 7,865,072	$ 606,782	$ 805,007	$ 269,325	$ 9,546,186	$ 1,232,059
Unrestricted cash and equivalents	$ 448,520	$ 203,818	$ 544,610	$ 269,325	$ 1,466,273	$ 1,232,059
Restricted cash and equivalents	7,416,552	402,964	260,397		8,079,913	
	$ 7,865,072	$ 606,782	$ 805,007	$ 269,325	$ 9,546,186	$ 1,232,059
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	$ 1,871,839	$ (411,526)	$ 2,002,956	$ 279,610	$ 3,742,879	$ 113,613
Adjustments to reconcile operating income to cash provided by operating activities:						
Depreciation	9,623,569	2,293,967	6,199,869	4,428	18,121,833	974,634
(Increase) decrease in accounts receivable	(257,378)	(38,280)	(65,524)	(84,927)	(446,109)	(384,413)
(Increase) decrease in inventory	(24,016)	(41,073)			(65,089)	
(Increase) decrease in prepaid items	10,929	20,245			31,174	(50,723)
(Increase) decrease in deferred outflows relating to pension activities	44,790	11,008	3,015	(14,505)	44,308	
Increase (decrease) in accounts payable	(15,841)	(861,635)	1,338,838	49,694	511,056	(1,391,974)
Increase (decrease) in salaries payable	(294)	18,908	1,184	5,669	25,467	
Increase (decrease) in customer deposits	5,882	(4,716)			1,166	
Increase (decrease) in claims and judgments						901,726
Increase (decrease) in net pension lialiliity	185,108	143,047	63,247	37,804	429,206	
Increase (decrease) in deferred inflows relating to pension activities	(27,416)	(14,730)	(6,007)	870	(47,283)	
Net cash provided (used) by operating activities	$ 11,417,172	$ 1,115,215	$ 9,537,578	$ 278,643	$ 22,348,608	$ 162,863
Non-cash Transactions:						
Capital assets contributed to City	$ 2,433,875	$ 4,241,193	$	$	$ 6,675,068	

See Notes to Financial Statements.

CITY OF SUGAR LAND, TEXAS

DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL ACTIVITIES

COMBINING STATEMENT OF NET POSITION

September 30, 2017

	Sugar Land 4B Corporation	Sugar Land Town Square Tax Increment Reinvestment Zone No. 1	Sugar Land Reinvestment Zone No. 3	Sugar Land Reinvestment Zone No. 4	Total Component Units
Assets					
Current assets:					
Cash and cash equivalents	$ 161,479	$ 20,581	$ 39,588	$ 1,589,851	$ 1,811,499
Investments	4,973,763				4,973,763
Accounts receivable, net of allowance for doubtful accounts	991,868	205		13,723	1,005,796
Interest receivable	29,651				29,651
Prepaid items	3,139				3,139
Restricted cash and cash equivalents	383,264		30,445		413,709
Restricted investments	2,739,382				2,739,382
Total Assets	9,282,546	20,786	70,033	1,603,574	10,976,939
Deferred Outflows of Resources					
Deferred charge on refunding	109,712				109,712
Total Deferred Outflows of Resources	109,712				109,712
Liabilities					
Current liabilities:					
Accounts payable and accrued expenses	16,879		4,306		21,185
Accrued interest	181,936				181,936
Total current liabilities	198,815		4,306		203,121
Non-current liabilities:					
Due within one year	1,961,639				1,961,639
Due in more than one year	30,217,059				30,217,059
Total non-current liabilities	32,178,698				32,178,698
Total Liabilities	32,377,513		4,306		32,381,819
Net Position					
Restricted:					
Debt service	2,940,710				2,940,710
Economic development activities		20,786	65,727	1,603,574	1,690,087
Unrestricted	(25,925,965)				(25,925,965)
Total Net Position	$(22,985,255)	$ 20,786	$ 65,727	$ 1,603,574	$(21,295,168)

See Notes to Financial Statements.

CITY OF SUGAR LAND, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL ACTIVITIES
COMBINING STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2017

		Program Revenues	Net (Expense) Revenue and Changes in Net Position				
Functions/Programs	**Expenses**	**Operating Grants and Contributions**	**Sugar Land 4B Corporation**	**Sugar Land Town Square Tax Increment Reinvestment Zone No. 1**	**Sugar Land Reinvestment Zone No. 3**	**Sugar Land Reinvestment Zone No. 4**	**Totals**
Component Unit:							
Sugar Land 4B Corporation	$ 7,450,048	$ 155,403	$ (7,294,645)	$	$	$	$ (7,294,645)
Sugar Land Town Square Tax Increment Reinvestment Zone No. 1	1,380,860			(1,380,860)			(1,380,860)
Sugar Land Reinvestment Zone No. 3	356,677				(356,677)		(356,677)
Sugar Land Reinvestment Zone No. 4	30,368					(30,368)	(30,368)
	$ 9,217,953	$ 155,403	(7,294,645)	(1,380,860)	(356,677)	(30,368)	(9,062,550)
General revenues							
Taxes:							
Property taxes				1,381,142	319,132	591,833	2,292,107
Sales tax			5,904,303				5,904,303
Miscellaneous			80,000	16			80,016
Unrestricted investment earnings			81,886	105	116	8,989	91,096
Total general revenues			6,066,189	1,381,263	319,248	600,822	8,367,522
Change in net position			(1,228,456)	403	(37,429)	570,454	(695,028)
Net position - beginning			(21,756,799)	20,383	103,156	1,033,120	(20,600,140)
Net position - ending			$ (22,985,255)	$ 20,786	$ 65,727	$ 1,603,574	$ (21,295,168)

See Notes to Financial Statements.

Note 1 – Summary of Significant Accounting Policies

The City of Sugar Land, Texas, (the "City") was incorporated in 1959 and adopted a "Home Rule Charter" in November 1980. The Charter, as amended, provides for a Council-Manager form of government. The Council is composed of a Mayor and six Council Members, two of which are elected at large and four of which are elected by District, each serving two-year terms. The Mayor and Council Members can serve no more than four consecutive regular two-year terms.

The Mayor presides at Council meetings and is entitled to vote on all matters considered by Council. All powers of the City are vested in the Council. Such powers 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.

A. Financial Reporting Entity

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by accounting principles generally accepted in the United States of America, these financial statements have been prepared based on considerations regarding the potential for inclusion of component units, which are other legal entities or organizations that are financially accountable to the City. Blended component units, although legally separate entities, are, in substance, part of the government's operations, and as a result, data from these units are combined with data of the primary government. Based on these considerations, the City's financial statements include the Sugar Land Development Corporation as a blended component unit. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize that they are legally separate from the primary government. Based on these considerations, the City's financial statements include the following discretely presented component units: the Sugar Land 4B Corporation, the Sugar Land Town Square TIRZ 1, the Sugar Land TIRZ 3, and the Sugar Land TIRZ 4. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are; that it has a separately elected Governing body; it is legally separate; and it is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include; considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Note 1 – Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

Blended Component Unit:

Sugar Land Development Corporation

The Sugar Land Development Corporation (the "Corporation") has been included in the reporting entity as a blended component unit. In 1993, the Corporation was created by the City under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting, and enhancing economic and development activities on behalf of the City. Effective October 1, 2005, the Board of Directors consists of members of the City Council. In the event of dissolution, net position of the Corporation shall be conveyed to the City. The Corporation is blended rather than discretely presented because the Corporation's governing body is the same as the City's and the management of the City has operational responsibility for the Corporation.

Discretely Presented Component Units:

Sugar Land 4B Corporation

In 1995, the City of Sugar Land formed the Sugar Land 4B Corporation (the "4B Corporation"), which was created by voters approving an additional sales tax. State law allows the City to collect sales tax to assist in the promotion and development activities of the City. The 4B Corporation has been included as a discretely presented component unit in the City's financial statements. The Board of Directors is appointed by and serves at the discretion of the City Council. City Council approval is required for annual budgets and bonded debt issuance. In the event of dissolution, net position of the 4B Corporation shall be conveyed to the City.

Sugar Land Town Square Tax Increment Reinvestment Zone No. 1

In 2000, the City of Sugar Land formed the Sugar Land Town Square Tax Increment Reinvestment Zone No. 1 (TIRZ 1), which was created under the authority of Tax Increment Financing Act, as codified as Chapter 311 of the Texas Tax Code. TIRZ 1 is a financing and management tool for the City in providing public facilities and infrastructure for a 32-acre multi-use development. TIRZ 1 has been presented as a discretely presented component unit in the City's financial statements. The participants include Fort Bend County and First Colony LID #2 at 100% of incremental value. The Board of Directors consists of nine members. Fort Bend County appoints one position, the State Senator appoints one position and the State Representative of the area included within the zone appoints one position. The remaining six members are appointed by City Council. City Council has the authority to approve or disapprove TIRZ 1 projects.

Sugar Land Reinvestment Zone No. 3

In 2007, the City of Sugar Land formed the Sugar Land Reinvestment Zone No. 3 (TIRZ 3), which was created under the provisions of the Chapter 311 of the Texas Tax Code for the purposes of promoting and development and redevelopment of a contiguous area within the City. TIRZ 3 is a financial tool with resources from property and sales taxes to be utilized in providing public improvements in TIRZ 3. The City participates at 50% of increment over the 2007 base value plus 50% of sales taxes within the historic district. Fort Bend County General Fund participates at 50% based on an increment over the 2013 tax base. Fort Bend County Drainage District does not participate. TIRZ 3 has been presented as a discretely presented component unit in the City's financial statements. The Board of Directors consists of five members of which the City Council appoints four members and Fort Bend County has the authority to appoint one member. City Council has the authority to approve or disapprove TIRZ 3 projects.

Note 1 – Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

Sugar Land Reinvestment Zone No. 4

In 2009, the City of Sugar Land formed Reinvestment Zone Number Four (TIRZ 4) through Ordinance 1768 under the provisions of Chapter 311 of the Texas Tax Code. The purpose of the Zone is to use tax increment revenue to finance public improvements and facilities necessary to support the development of a high-quality mixed use center with retail, office and entertainment uses. The City participates at a rate of 50 percent of their ad valorem tax rate above the 2009 tax base over the 30 year life of the Zone. Fort Bend County Municipal Utility District Nos. 138 and 139 have also agreed to contribute at a rate of 50 percent of the City's tax rate via participation agreements in 2011, while Fort Bend County Municipal Utility District No. 137 has yet to formalize a participation agreement. Participation agreements were formalized with Fort Bend County and the Fort Bend County Drainage District in January 2014 with a 2013 tax base. These agreements provide for 50 percent participation Years 2014 through 2029, 30 percent Years 2030 through 2034, and 20 percent Years 2035 through 2039; however, revenues were not captured until Tax Year 2014 (Fiscal Year 2015). The Board of Directors for TIRZ 4 consists of nine members, with four members appointed by the City, and one member appointed by each of the remaining taxing entities. Board members representing taxing entities that have yet to participate in the Zone have not been officially accepted as full recommending and voting members. The City Council has the final authority to approve or disapprove the TIRZ 4 Final Project Plan. TIRZ 4, which has one fund, has been presented as a discretely presented component unit in the City's financial statements.

Separately issued audited financial statements are not issued for the discretely presented component units. Information on the discretely presented component units is presented as separate combining statements within the basic financial statements of the City (following the basic financial statements for the funds). Unaudited financial statements may be obtained from the City's Finance Department.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information about the City as a whole. These statements include all activities of the primary government and its component units. For the most part, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this general rule are charges between the City's business-type and governmental funds and interfund loans. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

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

Note 1 – Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements and all proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. With this measurement focus, all assets, deferred outflows of resources, and all liabilities associated with the operations of these activities are included on the statements of net position. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. All capital assets in the Proprietary Fund Types are valued at cost.

The governmental fund financial statements are presented on a *current financial resources measurement focus* and *modified accrual basis of accounting*. This is the manner in which these funds are normally budgeted. Revenues are recognized as soon as they are both measurable and available. Measurable means that the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include sales and use taxes, franchise taxes, charges for services and interest on temporary investments. Property tax levies collected after the fiscal year-end, which would be available to finance current operations, are immaterial and remain deferred. Other receipts become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile fund-based financial statements with the governmental column of the government-wide presentation.

In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Following is a description of the various funds:

Governmental funds are those funds through which most governmental functions are typically financed. The City reports the following major governmental funds:

The *General Fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, administrative services, public works, parks and recreation, community development, and public safety.

The *Debt Service Fund* is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The principal source of revenue for debt service is local property taxes. The Debt Service Fund is considered a major fund for reporting purposes.

The *Capital Projects Fund* is used to account for the expenditures of resources accumulated from sales tax revenues and the sale of bonds and related interest earnings for capital improvement projects. The Capital Projects Fund is considered a major fund for reporting purposes.

Note 1 – Summary of Significant Accounting Policies (continued)

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

The City's Business type activities consist of the following major proprietary funds:

The *Utility Fund* is used to account for the City's water and wastewater services. The primary source of revenue is charges for service and the expenditures relate to operating expenses and capital expenditures for purchases and improvements.

The *Airport Fund* is used to account for the City's airport services. The primary source of revenue is charges for service and the expenditures relate to operating expenses and capital expenditures for purchases and improvements.

The *Surface Water Fund* is used to account for the City's surface water services. The primary source of revenue is charges for service and the expenditures relate to operating expenses and capital expenditures for purchases and improvements.

In addition, the City's Business type activities includes the following nonmajor proprietary fund:

The *Solid Waste Fund* is used to account for the City's solid waste services. The primary source of revenue is charges for service and the expenditures relate to operating expenses.

The *Enterprise Funds* are used to account for the operations that provide water and wastewater utility services to the public, solid waste disposal operations, and general aviation services. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

Additionally, the City maintains *Internal Service Funds* used to account for the financing of goods or services provided by one department or program to other departments or programs of the City on a cost-reimbursement basis. These funds are presented, in summary form, as part of the proprietary fund financial statements. Since the principal users of the internal services are the City's governmental activities, financial activities of the internal service funds are presented in the governmental activities column when presented at the government-wide level. The costs of these services are allocated to the appropriate function/program (general government, public safety, public works, etc.) in the statement of activities. Goods and services provided by the Internal Service Funds include employee health benefits, fleet replacement and high technology replacement.

The City uses the following classifications to describe the relative spending constraints on the various categories of fund balance. These clearly defined fund balance categories make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Note 1 – Summary of Significant Accounting Policies (continued)

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

Non-spendable fund balance – amounts that are not in spendable form or are legally or contractually required to be maintained intact.

Restricted fund balance – amounts that are subject to external restrictions from creditors, grantors, contributors, or laws of other governments.

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

Assigned fund balance – amounts the City intends to use for a specific purpose that is neither restricted or committed and includes the remaining positive fund balance of all governmental funds except for the General Fund. Balances for encumbrances, other than those committed by City Council, fall into this category. Intent can be established by City Council or delegated to the City Manager. City Council has by Resolution 14-24 authorized the City Manager to assign fund balance.

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

The City will typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

The City will maintain the General Fund unassigned fund balance equivalent to three months of normal recurring operating costs, based on current year budgeted expenditures. If the fund balance exceeds this amount, the amount in excess of policy requirements may be utilized to fund one-time expenditures in the next fiscal year’s budget.

D. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Open encumbrances are reported as committed or assigned fund balances since they do not constitute expenditures or liabilities. Encumbrances outstanding at year-end are appropriately provided for in the subsequent year's budget.

As of September 30, 2017, outstanding purchase orders totaled $649,219. These were the result of normal operations. As such, City Council has committed $376,995 and the City Manager has assigned $272,224 in the General Fund.

Note 1 – Summary of Significant Accounting Policies (continued)

E. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, balances in privately managed public funds investment pools ("TexPool" and “TexSTAR”) and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the Proprietary Fund Types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

The City pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments.

The City pools excess cash of the various individual funds to purchase these investments. These pooled investments are reported in the combined balance sheet as Investments in each fund based on each fund's share of the pooled investments. Interest income is allocated to each respective individual fund, monthly, based on their respective share of investments in the pooled investments. The City’s local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants*.

F. Investments

Investments consist of United States (U.S.) Government and Agency securities, certificates of deposits, and repurchase agreements. The City reports all investments at fair value based on quoted market prices at year-end date.

The City categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs.

G. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated unbilled revenues from the Utility System Fund are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billings during the month following the close of the fiscal year.

H. Internal Balances

The effect of interfund activity has been removed from the financial statements, with the exception of amounts between governmental and business-type activities, which are presented as internal balances. Goods and services provided by the City’s internal service funds are charged as direct costs to the enterprise funds that received those goods and services.

Note 1 – Summary of Significant Accounting Policies (continued)

I. Inventories and Prepaid Items

Inventories of the General and Enterprise Funds are valued at weighted moving average, except for airport fuel which is valued at market value. Inventories for all funds consist of expendable supplies held for consumption, and the cost thereof is recorded as an expense/expenditure at the time the inventory items are issued (consumption method). Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

J. Restricted Assets

The Enterprise Funds have restricted certain cash and investments for customer deposits, reserve and emergency expenditures, cash restricted for other purposes, and revenue bond debt service. Because of certain bond covenants, the Enterprise Fund is required to maintain prescribed amounts of resources that can be used only to service outstanding debt. The proceeds from debt are restricted for use on capital projects. Additionally, the Sugar Land Development Corporation and the Sugar Land 4B Corporation have restricted certain cash and investments for revenue bond debt service, and because of certain bond covenants, they are required to maintain prescribed amounts of resources that can be used only to service outstanding debt.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future reporting period and thus, will not be recognized as an outflow of resources (expense) until that time. The City has two items that qualify for reporting in this category.

- Deferred outflows of resources for refunding - Reported in the government-wide statement of net position, this deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

- Deferred outflows of resources for pension activities - Reported in the government wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of 1) differences between projected and actual earnings on pension plan investments; 2) changes in actuarial assumptions; and 3) differences between expected and actual actuarial experiences. The deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on pension plan investments will be amortized over a closed five year period. The remaining pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future reporting period and thus, will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualifies for reporting in this category.

Note 1 – Summary of Significant Accounting Policies (continued)

K. Deferred Outflows/Inflows of Resources (continued)

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes, photographic traffic enforcement and EMS services arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

- Deferred inflows of resources for pension activities - Reported in the government wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions and 2) differences between expected and actual actuarial experiences. These pension related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

L. Capital Assets

Capital assets used in governmental fund types of the government are recorded as expenditures of the General, Special Revenue and Capital Projects Funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Depreciation is recorded on capital assets on a government-wide basis. Property, Plant, and Equipment in the Proprietary Funds of the government are recorded at cost or at the estimated fair value at the date of donation if donated to the City. Property, Plant, and Equipment acquired from Municipal Utility Districts (MUDs) are recorded at the book value of the MUD at the date of dissolution. Major outlays for capital assets and improvements are capitalized in Proprietary Funds as projects are constructed and subsequently depreciated over their estimated useful lives on a straight-line basis at both the proprietary fund and government-wide levels. All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' original estimated useful lives are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and resulting gain or loss is included in the results of operations.

Note 1 – Summary of Significant Accounting Policies (continued)

L. Capital Assets (continued)

Depreciation has been provided for plant and equipment with estimated useful lives of three or more years and individual cost in excess of $5,000 using the straight-line method over the following estimated useful life for the type of assets as follows:

Asset Description	Estimated Useful Life
Vehicles	3 to 7 years
Office furniture and equipment	3 to 20 years
Machinery and equipment	6 to 15 years
Water and wastewater system	10 to 50 years
Airport facilities and improvements	20 to 45 years
Buildings, facilities and land improvements	15 to 45 years
Infrastructure	20 to 50 years
Organizational cost of acquired MUDs	40 years

M. Compensated Absences

Employees earn vacation based on years of service with the City. Employees are paid unused vacation time to a maximum of 160 hours upon termination, depending on longevity, but may not otherwise elect to be paid in lieu of vacation.

Sick leave credit accrues at the rate of one day for each month of service. Full-time employees are, upon voluntary termination and in good standing or retirement, paid for unused sick leave to a maximum of 40 or 80 hours of such pay, depending on years of service. The General Fund has typically been used to liquidate governmental activity compensated absences in prior years.

N. Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 71.

O. Estimates

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

Note 1 - Summary of Significant Accounting Policies (continued)

P. Deficit Equity

The Employee Benefits Fund had deficit net position of $704.8 thousand as of September 30, 2017. The deficit is due to the unfunded OPEB liability.

The Sugar Land 4B Corporation had deficit net position of $23 million as of September 30, 2017. The deficit results from the component unit issuing debt and constructing or purchasing capital assets which are then conveyed to the primary government.

The Photographic Traffic Enforcement Fund had a deficit fund balance of $26,513 as of September 30, 2017. The deficit results primarily from a transfer of 50% of net revenues for traffic safety as described in Note 7.

Q. Budgets

Annual appropriated budgets are adopted for the General, Special Revenue, and Debt Service Funds, using the same cash basis of accounting.

R. New Accounting Standards

In the current fiscal year, the City implemented the following new standards. The applicable provisions of these new standards are summarized here. Implementation is reflected in the financial statements and the notes to the financial statements.

GASB Statement 82, *Pension Issues-An amendment of GASB Statements No. 67, No. 68 and No. 73*, addresses the presentation of payroll-related measures in required supplementary information, selection of assumptions and the treatment of deviations from the guidance in an actuarial standard of practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements.

Note 2 - Deposits (Cash) and Investments

Authorization for Deposits and Investments

The Texas Public Funds Investment Act (PFIA), as prescribed in Chapter 2256 of the Texas Government Code, regulates deposits and investment transactions of the City.

In accordance with applicable statutes, the City has a depository contract with an area bank (depository) providing for interest rates to be earned on deposited funds and for banking charges the City incurs for banking services received. The City may place funds with the depository in interest and non-interest bearing accounts. State law provides that collateral pledged as security for bank deposits must have a market value of not less than the amount of the deposits and must consist of: (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas; and/or (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent. City policy requires the collateralization level to be at least 102% of market value of principal and accrued interest.

Note 2 - Deposits (Cash) and Investments (continued)

Deposit and Investment Amounts

The Council has adopted a written investment policy regarding the investment of City funds as required by the Public Funds Investment Act (Chapter 2256, Texas Government Code). The investments of the City are in compliance with the City’s investment policy. The City’s investment policy is more restrictive than the PFIA requires. It is the City’s policy to restrict its direct investments to obligations of the U.S. Government or U.S. Government Agencies, fully FDIC insured certificates of deposit, banker’s acceptances, mutual funds, repurchase agreements and local government investment pools. The maximum maturity allowed is three years from date of purchase.

The City’s investment policy does not allow investments in commercial paper, collateralized mortgage obligations, floating rate investments or swaps.

The City's cash and investments are classified as: Cash and cash equivalents, investments, restricted cash and cash equivalents, and restricted investments. The cash and cash equivalents include cash on hand, deposits with financial institutions, and short-term investments in privately-managed public funds investment pool accounts (TexPool and TexSTAR). The investments which have maturities at purchase greater than three months consist mainly of U.S. Government treasury bills, treasury notes, and other U.S. Government obligations. The restricted cash and investments are assets restricted for specific use. The restricted cash and cash equivalents and restricted investments include cash with financial institutions, TexPool, TexSTAR, and U.S. Government Securities. For better management of cash, the City pools the cash, based on the City's needs, into either deposits in the bank accounts, in short-term investments with TexPool, TexSTAR, or in longer-term investments in U.S. Government Securities. However, each fund's balance of cash and investments is maintained in the books of the City.

The following schedule shows the City’s recorded cash and investments at year-end:

	Total Fair Value	
	Primary Government	**Discretely Presented Component Units**
Cash Deposits	$ 7,555,620	$ 874,930
Certificates of Deposit	9,669,073	1,737,032
Temporary Investments:		
Government securities:		
FHLB	28,434,183	1,498,230
FHLMC	57,550,589	2,733,760
FFCB	20,942,457	997,584
FNMA	12,649,742	746,539
Public Funds Investment Pools:		
TexPool	8,604,232	1,350,278
TexSTAR	28,522,416	
	$ 173,928,312	$ 9,938,353

At September 30, 2017, the City reported cash deposits in the amount of $8,430,550 and the bank balance was $8,298,975. $488,000 of this total represented cash deposits with a fiscal agent. The City's collateral requirement, in accordance with its investment policy is 102%. Of the bank balance, the entire amount was covered by federal depository insurance or by collateral held by the City's agent in the City's name, which totaled $12,696,771 as of September 30, 2017.

Note 2 - Deposits (Cash) and Investments (continued)

Deposit and Investment Amounts (continued)

Investments' fair value measurements are as follows at September 30, 2017:

		Fair Value Measurements Using		
Investments	**Fair Value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
Certificates of Deposit	$ 11,406,105	$ 11,406,105	$	$
Government securities:				
FHLB	29,932,413		29,932,413	
FHLMC	60,284,349		60,284,349	
FFCB	21,940,041		21,940,041	
FNMA	13,396,281		13,396,281	
Total	$ 136,959,189	$ 11,406,105	$ 125,553,084	$

Quoted market prices are the basis of the fair value for U.S. Agency securities. The amount of increase or decrease in the fair value of investments during the current year is included in the City's investment income as follows:

	Primary Government	**Discretely Presented Component Units**
Interest income	$ 1,935,511	$ 123,923
Unrealized gain (loss) on temporary investments	(547,493)	(32,827)
Investment earnings	$ 1,388,018	$ 91,096

Interest Rate Risk

At year-end, the City had the following investments subject to interest rate risk disclosure, under U.S. generally accepted accounting principles:

	Fair Value		
	Primary Government	**Discretely Presented Component Units**	**Weighted Average Maturity (days)**
Cash Deposits	$ 7,555,620	$ 874,930	1
Certificate of Deposits	9,669,073	1,737,032	344
Temporary Investments:			
Government securities:			
U.S. Agency Securities	119,576,971	5,976,113	389
Public Funds Investment Pools:			
TexPool	8,604,232	1,350,278	34
TexSTAR	28,522,416		29
	$ 173,928,312	$ 9,938,353	
Portfolio weighted average maturity (days)	293	299	

Note 2 - Deposits (Cash) and Investments (continued)

Interest Rate Risk (continued)

The City measures interest rate risk using the weighted average maturity method for the portfolio. The City's investment policy specifies a maximum weighted average maturity of 90 days for public fund investment pools and 1,095 days for securities. The targeted maximum weighted average maturity allowed, based on the stated maturity date, for the portfolio is 548 days or 18 months.

To the extent possible, the City attempts to match investments with anticipated cash flow requirements. The settlement date is considered the date of purchase.

Local Government Investment Pools

As of September 30, 2017, the City's investments included TexPool and TexSTAR Investment Pools. The investment pool's investments are not evidenced by securities that exist in physical or book entry form and, accordingly, do not have custodial risk.

TexPool policies require that local government deposits be used to purchase investments authorized by the Public Funds Investment Act (PFIA) of 1987, as amended. The Texas State Comptroller of Public Accounts has oversight responsibility for TexPool. TexPool is a public funds investment pool created by the Texas Treasury Safekeeping Trust Company (Trust Company) to provide a safe environment for the placement of local government funds in authorized short-term, fully collateralized investments, including direct obligations of, or obligations guaranteed by, the United States or State of Texas or their agencies; federally insured certificates of deposit issued by Texas banks or savings and loans; and fully collateralized direct repurchase agreements secured by United States Government agency securities and placed through a primary government securities dealer.

The Trust Company was incorporated by the State Treasurer by authority of the Texas Legislature as a special purpose trust company with direct access to the services of the Federal Reserve Bank to manage, disburse, transfer, safe keep, and invest public funds and securities more efficiently and economically. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. TexPool uses amortized cost rather than fair value to report net position to compute share prices. The fair value of the position in TexPool is the same as the value of TexPool shares. Accordingly, the City's investments in TexPool are stated at cost, which approximates fair value. TexPool is currently rated AAAm by Standard and Poor's. This rating indicates excellent safety and a superior capacity to maintain principal value and limit exposure to loss.

TexSTAR is administered by First Southwest Asset Management, Inc. and JPMorgan Chase. TexSTAR is a local government investment cooperative created under the Interlocal Cooperation Act specifically tailored to meet state and local government investment objectives of preservation of principal, daily liquidity and competitive yield. The fund maintains a maturity of 60 days or less, with a maximum of 13 months for any individual security. The fund seeks to maintain a constant dollar objective and fulfills all requirements of Texas PFIA for local government investment pools.

Note 2 - Deposits (Cash) and Investments (continued)

Local Government Investment Pools (continued)

TexSTAR is overseen by a five member governing board made up of three participants and one of each of the program's professional administrators. The responsibility of the board includes the ability to influence operations, designation of management, and accountability for fiscal matters. In addition, the pool has a Participant Advisory Board which provides input and feedback on the operations and direction of the program and Standard and Poor's reviews the pool on a weekly basis to ensure the pool's compliance with its rating requirements. TexSTAR uses amortized cost (which excludes unrealized gains and losses) rather than fair value to report net assets to compute share price. The fair value of the City's position in TexSTAR is the same as the value of TexSTAR shares.

In accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, the Local Government Investment Pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. These pools do not impose any liquidity fees or redemption gates.

Concentration of Credit Risk

The City's investment policy allows investments by type based on the following diversification requirements:

Investment Type	Maximum Investment %
Repurchase Agreements	up to 50%
Certificates of Deposit	up to 50%
U.S. Treasury Bills/Notes	up to 100%
Other U.S. Government Securities	up to 75%
Authorized Investment Pools	up to 75% total
Bankers' Acceptances	up to 25%
No Load Money Market Mutual Funds	up to 50%
No Load Mutual Funds	up to 10% total

Note 2 - Deposits (Cash) and Investments (continued)

Concentration of Credit Risk (continued)

The City had investments in U.S. Agency securities that exceeded five percent of the total investment portfolio at year-end. The City investment policy allows these investment levels for the portfolio.

Investment Type	Fair Value	Percentage of Total Portfolio
Cash Deposits	$ 8,430,550	4.6%
Certificates of Deposit	11,406,105	6.2%
Temporary Investments:		
Government securities:		
FHLB	29,932,413	16.3%
FHLMC	60,284,349	32.8%
FFCB	21,940,041	11.9%
FNMA	13,396,281	7.3%
Total government securities	125,553,084	68.3%
Public Funds Investment Pools:		
TexPool	9,954,510	5.4%
TexSTAR	28,522,416	15.5%
	$ 183,866,665	100.0%

Credit Risk

At year-end balances in TexPool and TexSTAR, privately managed public funds investment pools, were rated AAAm by Standard & Poor's.

Securities from Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit Banks (FFCB) and Federal National Mortgage Association (FNMA) were all rated AA+ by Standard & Poor's, AAA by Fitch Ratings, and Aaa by Moody's Investors Service.

All credit ratings meet acceptable levels required by guidelines prescribed by both the PFIA and the City's investment policy. A public fund investment pool must be continuously rated no lower than AAA or AAAm or no lower than investment grade by at least one nationally recognized rating service and have a weighted average maturity no greater than 90 days. Investments with minimum required ratings do not qualify as authorized investments during the period the investment does not have the minimum rating.

Note 2 - Deposits (Cash) and Investments (continued)

Restricted Assets

The Capital Projects Fund, the Sugar Land Development Corporation Fund, and the Enterprise Funds have restricted certain cash and cash equivalents and investments for reserve and emergency expenditures, revenue bond debt service, and other purposes. Because of certain bond covenants, the Enterprise Fund is required to maintain prescribed amounts of resources that can be used only to service outstanding debt. Some of the proceeds from debt or from funds received from acquisition of Municipal Utility Districts are restricted for use on capital projects.

The amounts of the restricted cash and cash equivalents and investments and their respective purpose are as follows:

Restricted Purpose	Cash	Investments
Restricted for Capital Projects	$ 2,237,780	$ 32,349,274
Restricted for Debt Service	9,713,841	8,073,759
Restricted for Other Purposes	106,944	996,370
Total	$ 12,058,565	$ 41,419,403

Additionally, the Sugar Land 4B Corporation has restricted certain cash and investments for revenue bond debt service. This is done to comply with certain bond covenants that require funds to be reserved and used only to service outstanding debt.

Note 3 - Receivables

Property Taxes

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The Central Appraisal District ("CAD") of Fort Bend County, Texas, establishes appraised values, and performs billing and collection of the City’s tax levies. Taxes are levied by the City Council based on the appraised values and operating needs of the City.

Note 3 - Receivables (continued)

Receivables at September 30, 2017, consist of the following:

Governmental Funds:

	General Fund	Debt Service Fund	Capital Projects Fund	Non-Major Governmental Funds	Total
Property taxes, including penalties and interest	$ 687,634	$ 220,665	$	$	$ 908,299
Sales and other taxes	6,639,382				6,639,382
Fines and forfeitures	1,463,960			6,738,249	8,202,209
Interest	54,154	14,102	47,979	26,694	142,929
Other	1,126,217			758,686	1,884,903
Due from other governments	241,884		3,662,346	177,553	4,081,783
Allowance for uncollectibles	(1,827,044)			(2,719,365)	(4,546,409)
Total	$8,386,187	$ 234,767	$3,710,325	$ 4,981,817	$ 17,313,096

Proprietary Funds:

	Utilities Fund	Airport Fund	Surface Water Fund	Solid Waste Fund	Internal Service Funds	Total
Customer accounts	$3,515,889	$ 181,944	$ 606,539	$ 606,067	$	$ 4,910,439
Interest	174,738	18,377	99,961		9,709	302,785
Other		50,000		156,731	394,055	600,786
Allowance for uncollectibles	(262,861)	(17,870)	(21,000)	(34,090)		(335,821)
Total	$3,427,766	$ 232,451	$ 685,500	$ 728,708	$ 403,764	$ 5,478,189

Component Units:

	Sugar Land 4B Corporation	Sugar Land Town Square TIRZ #1	Sugar Land TIRZ #4	Total
Sales and other taxes	$ 991,868	$ 205	$ 13,723	$ 1,005,796
Interest	29,651			29,651
Total	$ 1,021,519	$ 205	$ 13,723	$ 1,035,447

Note 4 - Capital Assets

A summary of changes in the primary government's capital assets for the year ended September 30, 2017, follows:

	Balance September 30, 2016	Increases	(Decreases)	Balance September 30, 2017
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 83,840,186	$ 1,714,143	$	85,554,329
Construction in progress	150,132,379	48,893,849	(138,785,128)	60,241,100
Intangibles	1,998,792	1,672,098		3,670,890
Total capital assets not being depreciated	235,971,357	52,280,090	(138,785,128)	149,466,319
Other capital assets:				
Infrastructure	446,975,344	23,080,592		470,055,936
Buildings and improvements	128,739,404	115,704,536		244,443,940
Equipment and furniture	44,380,430	9,442,889	(1,232,307)	52,591,012
Intangibles	753,750			753,750
Total other capital assets	620,848,928	148,228,017	(1,232,307)	767,844,638
Less accumulated depreciation for:				
Infrastructure	(240,117,038)	(10,244,005)		(250,361,043)
Buildings and improvements	(39,286,714)	(6,054,718)		(45,341,432)
Equipment and furniture	(27,560,036)	(3,028,798)	1,224,488	(29,364,346)
Intangibles	(212,436)	(84,155)		(296,591)
Total accumulated depreciation	(307,176,224)	(19,411,676)	1,224,488	(325,363,412)
Other capital assets, net	313,672,704	128,816,341	(7,819)	442,481,226
Totals	$ 549,644,061	$ 181,096,431	$ (138,792,947)	$ 591,947,545

	Balance September 30, 2016	Increases	(Decreases)	Balance September 30, 2017
Business-type Activities:				
Capital assets not being depreciated:				
Land	19,974,051	$ 3,291,896	$	23,265,947
Construction in progress	42,820,556	19,964,843	(13,873,610)	48,911,789
Intangibles	1,165,107	670,810		1,835,917
Total capital assets not being depreciated	63,959,714	23,927,549	(13,873,610)	74,013,653
Other capital assets:				
Infrastructure	501,372,065	9,365,136		510,737,201
Buildings and improvements	19,482,879	4,508,474		23,991,353
Equipment and furniture	9,407,773	724,349	(50,959)	10,081,163
Intangibles	1,019,012			1,019,012
Total other capital assets	531,281,729	14,597,959	(50,959)	545,828,729
Less accumulated depreciation for:				
Infrastructure	(177,796,714)	(16,756,853)		(194,553,567)
Buildings and improvements	(6,763,854)	(717,126)		(7,480,980)
Equipment and furniture	(5,158,132)	(504,170)	50,959	(5,611,343)
Intangibles	(241,067)	(143,684)		(384,751)
Total accumulated depreciation	(189,959,767)	(18,121,833)	50,959	(208,030,641)
Other capital assets, net	341,321,962	(3,523,874)		337,798,088
Totals	$ 405,281,676	$ 20,403,675	$ (13,873,610)	$ 411,811,741

Note 4 - Capital Assets (continued)

Depreciation was charged to programs as follows:

General government	$	677,820
Administrative services		1,104,639
Public works		12,051,584
Parks and recreation		2,103,338
Environmental and neighborhood services		1,022,210
Community development		72,872
Public safety-Police		423,782
Public safety-Fire		837,303
Public safety-EMS		143,494
In addition, depreciation on capital assets held by the City's internal service funds is charged to various functions based on their usage of the assets		974,634
Total Governmental Activities	$	19,411,676
Water and wastewater	$	9,623,569
Airport		2,293,967
Surface Water		6,199,869
Solid Waste		4,428
Total Business-Type Activities	$	18,121,833

The City has active construction projects as of September 30, 2017. The projects include various improvements to streets, parks and facilities as well as airport and utility improvements. At year-end, the City's contractual commitments on projects were as follows:

Project Description	**Total In Progress**	**Remaining Commitment**
Drainage improvement	$ 22,004,277	$ 3,150,475
Park improvement	13,089,441	1,344,335
Municipal improvements	2,441,630	1,409,491
Street improvement	18,245,556	8,220,508
Traffic improvement	4,460,196	58,085
GW Annexation		14,159
Water and wastewater improvements	27,629,106	4,073,564
Airport improvement	11,477,876	1,657,940
Surface Water	9,804,807	6,363,110
Totals	$ 109,152,889	$ 26,291,667

Note 5 - Long-Term Debt

A. Governmental Activity Debt

The City issues general obligation bonds and certificates of obligation and upon dissolution of Municipal Utility Districts, assumes unlimited tax and revenue obligations. The assumed obligations were used to acquire and construct major capital facilities. General obligation bonds, certificates of obligation, and assumed obligations from dissolved areas are for both governmental and business-type activities. The bonds are reported in the Proprietary Funds only if they are expected to be repaid from proprietary revenues. The general long-term bonds, certificates of obligation and assumed obligations are paid through the Debt Service Fund from tax revenues and transfers from the Utility fund.

The City issued $7,570,000 of General Obligation Bonds, Series 2016 dated November 1, 2016. This issuance is reported in governmental activities. Proceeds from the sale of the bonds, including a premium of $241,463, will be used for (i) park and festival site improvements, (ii) hike and bike trails and (iii) to pay the costs associated with the issuance of the Bonds.

The City issued $21,115,000 of Combination Tax and Revenue Certificates of Obligation, Series 2017 dated May 1, 2017. This issuance is reported in governmental activities and business-type activities in the amounts of $19,060,000 and $2,055,000, respectively. Proceeds from the sale of the certificates, including a premium of $1,972,297, will be used (i) for construction, renovation or acquisition of: (a) street and traffic improvements, including, but not limited to, streets, boulevards and traffic signals, (b) drainage and flood control improvements, (c) animal shelter improvements, (d) airport maintenance building improvements, (e) law enforcement building improvements, and (f) City building office space improvements, including, but not limited to, City Hall and Public Works offices and (ii) to pay the costs associated with the issuance of the Certificates.

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended September 30, 2017. In general, the City uses the General and Debt Service funds to liquidate governmental long-term liabilities. Sales tax revenue bonds are serviced through sales tax revenues reported in the Sugar Land Development Corporation special revenue fund. Compensated absences are typically liquidated by the General Fund.

	Balance September 30, 2016	Increases	(Decreases)	Balance September 30, 2017	Amounts Due Within One Year
Bonds payable:					
General obligation bonds	$ 82,065,000	$ 7,570,000	$ (7,540,000)	$ 82,095,000	$ 7,345,000
Annexed utility district bonds	2,325,000		(540,000)	1,785,000	535,000
Certificates of obligation	104,245,202	19,060,000	(5,247,601)	118,057,601	6,802,601
Sales tax revenue bonds	50,655,000		(1,790,000)	48,865,000	1,845,000
Tax note	3,964,881		(771,712)	3,193,169	785,743
Issuance premiums/discounts	16,802,933	2,045,464	(1,335,884)	17,512,513	
	260,058,016	28,675,464	(17,225,197)	271,508,283	17,313,344
Other non-current liabilities:					
Net pension liability	27,414,860	2,546,077		29,960,937	
Obligations under capital leases	260,170		(260,170)		
Other Post-Employment Benefit Obligation (OPEB)	1,551,384	355,580	(101,055)	1,805,909	
Obligation to State	235,061	634,463	(152,666)	716,858	248,798
Compensated absences	2,803,774	3,658,475	(3,558,100)	2,904,149	75,000
Total Governmental Activities	$ 292,323,265	$ 35,870,059	$ (21,297,188)	$ 306,896,136	$ 17,637,142

Note 5 - Long-Term Debt (continued)

A. Governmental Activity Debt (continued)

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

The full amount estimated to be required for debt service on general obligation debt is provided by:

1. the debt service portion of the tax levy;
2. interest earned in the Debt Service Fund; and
3. transfers from the Utility Enterprise Fund. Transfers from the Enterprise Funds are approved at the discretion of City Council and are not intended to service a specific bond series.

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

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
General Obligation Bonds				
Series 2008 General Obligation Bonds	$ 6,925,000	2028	4.0-5.0	$ 325,000
Series 2010 General Obligation & Refundimg Bonds	22,290,000	2026	2.0-5.0	9,715,000
Series 2010 General Obligation Bonds	2,435,000	2030	3.0-4.125	755,000
Series 2012 General Obligation & Refundimg Bonds	9,440,000	2021	2.0-4.0	1,985,000
Series 2012A General Obligation Refundimg Bonds	4,295,000	2025	2.0-4.0	2,925,000
Series 2014 General Obligation Refundimg Bonds	21,565,000	2026	2.0-5.0	15,075,000
Series 2015 General Obligation Bonds	13,010,000	2035	2.125-4.0	12,100,000
Series 2015 General Obligation Refundimg Bonds	9,375,000	2028	2.0-5.0	9,275,000
Series 2015 General Obligation Refundimg Bonds	22,745,000	2029	4.0-5.0	22,745,000
Series 2016 General Obligation Bonds	7,570,000	2036	2.0-4.0	7,195,000
Total General Obligation Bonds				$ 82,095,000
Certificates of Obligation				
Series 2008 Tax and Revenue Certificates of Obligation	$ 4,460,000	2028	3.75-5.0	$ 210,000
Series 2009 Tax and Revenue Certificates of Obligation	17,370,000	2029	2.0-4.5	1,057,601
Series 2010 Tax and Revenue Certificates of Obligation	23,405,000	2030	2.5-4.0	8,335,000
Series 2013 Tax and Revenue Certificates of Obligation	24,440,000	2033	2.5-4.0	20,595,000
Series 2014 Tax and Revenue Certificates of Obligation	9,980,000	2040	3.25-6.0	9,465,000
Series 2014A Tax and Revenue Certificates of Obligation - Taxable	27,130,000	2046	3.125-4.50	27,130,000
Series 2015 Tax and Revenue Certificates of Obligation	15,005,000	2035	3.0-4.0	13,975,000
Series 2016 Tax and Revenue Certificates of Obligation	19,190,000	2036	2.0-4.0	18,230,000
Series 2017 Tax and Revenue Certificates of Obligation	19,060,000	2037	3.0-5.0	19,060,000
Total Certificates of Obligation				$ 118,057,601
Series 2014 Tax Note	$ 5,700,000	2021	1.81	$ 3,193,169
Sales Tax Revenue Bonds				
Series 2013 Sales Tax Revenue Bonds	$ 7,200,000	2038	4.25-4.375	$ 6,420,000
Series 2014 Sales Tax Revenue Refunding Bonds	7,375,000	2025	2.0-5.0	6,075,000
Series 2014 Sales Tax Revenue Bonds	38,265,000	2040	3.75-6.75	36,370,000
Total Sales Tax Revenue Bonds				$ 48,865,000
Annexed Utility District Bonds				
Fort Bend County Municipal Utility District No. 21				
Series 2008 Unlimited Tax Refunding	$ 4,000,000	2024	3.5-4.0	$ 100,000
Series 2012 Unlimited Tax Refunding	4,045,000	2021	2.0-3.0	1,685,000
Total Annexed Utility District Bonds				$ 1,785,000

Note 5 - Long-Term Debt (continued)

A. Governmental Activity Debt (continued)

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

	Governmental Activities			
	General Obligation Bonds		Certificates of Obligation	
Year Ending Sept. 30	Principal	Interest	Principal	Interest
2018	$ 7,345,000	$ 3,242,338	$ 6,802,601	$ 4,372,942
2019	6,825,000	2,953,006	5,660,000	4,131,424
2020	6,765,000	2,676,206	5,790,000	3,912,549
2021	8,015,000	2,345,481	4,770,000	3,710,699
2022	8,350,000	2,014,231	4,865,000	3,522,186
2023	8,180,000	1,678,431	4,970,000	3,328,499
2024	8,120,000	1,312,531	4,775,000	3,133,611
2025	6,560,000	990,606	4,845,000	2,939,818
2026	5,190,000	729,997	4,915,000	2,745,202
2027	4,265,000	518,963	4,985,000	2,557,508
2028	2,775,000	361,963	6,690,000	2,345,450
2029	2,005,000	269,838	6,855,000	2,093,307
2030	1,325,000	214,344	7,005,000	1,831,908
2031	1,155,000	176,075	5,260,000	1,604,696
2032	1,175,000	141,125	5,340,000	1,413,237
2033	1,200,000	105,500	5,415,000	1,225,593
2034	1,225,000	68,594	4,275,000	1,061,193
2035	1,245,000	30,469	4,350,000	916,606
2036	375,000	5,625	3,395,000	783,199
2037			2,505,000	675,331
2038			1,630,000	593,705
2039			1,700,000	523,895
2040			1,780,000	450,950
2041			1,190,000	388,055
2042			1,240,000	335,810
2043			1,295,000	281,308
2044			1,350,000	224,440
2045			1,405,000	165,208
2046			1,465,000	102,038
2047			1,535,000	34,538
	$ 82,095,000	$ 19,835,323	$ 118,057,601	$ 51,404,905

Note 5 - Long-Term Debt (continued)

A. Governmental Activity Debt (continued)

The annual requirements to amortize governmental activity dissolved utility district bonds and the tax note outstanding at September 30, 2017, are as follows:

	Governmental Activities			
	Annexed Utility District Bonds		Tax Note	
Year Ending Sept. 30	Principal	Interest	Principal	Interest
2018	$ 535,000	$ 45,800	$ 785,743	$ 54,257
2019	425,000	31,125	1,066,024	53,976
2020	415,000	18,525	1,085,406	34,594
2021	410,000	6,150	1,095,996	16,671
	$ 1,785,000	$ 101,600	$ 4,033,169	$ 159,499

Sales Tax Revenue Bonds

The annual requirements to amortize governmental activity sales tax revenue bonds outstanding payable from sales tax receipts collected by the SLDC at September 30, 2017, are as follows:

	Sugar Land Development Corporation Blended Component Unit	
	Sales Tax Revenue Bonds	
Year Ending Sept. 30	Principal	Interest
2018	1,845,000	2,304,296
2019	1,900,000	2,210,621
2020	1,980,000	2,108,984
2021	2,055,000	1,998,721
2022	2,140,000	1,884,090
2023	2,225,000	1,768,821
2024	2,315,000	1,644,571
2025	2,420,000	1,512,268
2026	1,610,000	1,402,659
2027	1,675,000	1,311,318
2028	1,740,000	1,216,346
2029	1,815,000	1,122,215
2030	1,885,000	1,028,808
2031	1,965,000	933,456
2032	2,045,000	835,944
2033	2,135,000	734,106
2034	2,225,000	639,431
2035	2,330,000	552,075
2036	2,450,000	457,600
2037	2,575,000	355,478
2038	2,705,000	248,172
2039	2,355,000	146,100
2040	2,475,000	49,500
	$ 48,865,000	$ 26,465,581

Note 5 - Long-Term Debt (continued)

A. Governmental Activity Debt (continued)

Capital Lease Obligations

The City had no capital leases outstanding as of September 30, 2017.

Obligations to State - Refund of Sales Tax

During the 1999 fiscal year, the Texas State Comptroller of Public Accounts notified the City of Sugar Land, the Sugar Land Development Corporation, and the Sugar Land 4B Corporation, that the State had remitted $591,620 in sales tax receipts to the City which were not collected within the City. The State requested the amount be returned to the State. The City had allocated the sales tax to the Corporations in accordance with the proper sales tax rates. The City settled with the State to repay the State in annual installments of $19,721 starting October 1, 1999, over a 30-year period without interest.

During the fiscal year 2017, the City was informed of an overpayment of sales tax in the amount of $725,100 in error. At the City's request, the Comptroller's office agreed to deduct $21,973 from March 2017 through October 2019 followed by one final payment of $21,964.

Tax Note

In October 2014, the City issued a $5.7 million tax note to fund the purchase of ambulances and fire trucks. The note was issued for seven years at the rate of 1.81%. The principal and interest payments are calculated based on the following draw schedule:

Date	Draw Amount
10/9/2014	$ 2,760,000
8/15/2015	750,000
8/15/2016	1,350,000
8/15/2018	840,000
	$ 5,700,000

Defeased Debt

In current and prior years, the City legally defeased certain bonds and certificates of obligation by placing cash and/or proceeds of refunding bonds issues in an irrevocable trust to provide for all future debt services payments on the refunded debt. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City’s report.

Note 5 - Long-Term Debt (continued)

A. Governmental Activity Debt (continued)

Defeased Debt (continued)

A summary of previously defeased debt still outstanding as of September 30, 2017 follows:

Description	Call Date	Amount Considered Defeased
General Obligation Bonds, Series 2008	2/15/2018	$ 3,975,000
Combination Tax & Revenue Certification of Obligation, Series 2008	2/15/2018	2,560,000
General Obligation Bonds, Series 2008	2/15/2018	340,000
Combination Tax & Revenue Certification of Obligation, Series 2008	2/15/2018	220,000
Combination Tax & Revenue Certification of Obligation, Series 2009	2/15/2018	10,035,000
Combination Tax & Revenue Certification of Obligation, Series 2010	2/15/2019	9,475,000
General Obligation Bonds, Series 2010	2/15/2019	1,095,000
General Obligation Refunding Bonds, Series 2010	2/15/2019	3,610,000
Waterworks and Sewer System Revenue Bonds, Series 2008	8/15/2018	9,165,000
Waterworks and Sewer System Revenue Bonds, Series 2009	8/15/2018	18,595,000
		$ 59,070,000

B. Business Type Activity Debt

The City issued $19,780,000 of Waterworks and Sewer System Revenue Bonds, Series 2017 dated April 15, 2017. This issuance is reported in business-type activities. Proceeds from the sale of the bonds, including a premium of $939,970, will be used (i) for acquiring and constructing property, facilities and improvements to the System, and (ii) to pay the costs incurred in connection with the issuance of the Bonds.

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

	Balance September 30, 2016	Increases	(Decreases)	Balance September 30, 2017	Amounts Due Within One Year
Bonds payable:					
Water and wastewater revenue bonds	$ 91,355,000	$ 19,780,000	$ (5,915,000)	$ 105,220,000	$ 6,710,000
General obligation bonds	7,660,000		(630,000)	7,030,000	645,000
Certificates of obligation	93,469,798	2,055,000	(2,202,400)	93,322,398	2,352,398
Issuance premiums/discounts	7,756,729	1,108,265	(636,169)	8,228,825	
	200,241,527	22,943,265	(9,383,569)	213,801,223	9,707,398
Other liabilities:					
Net Pension Liability	3,597,776	429,207		4,026,983	
Compensated absences	338,038	457,162	(437,562)	357,638	10,000
Total Business-type Activities	$ 204,177,341	$ 23,829,634	$ (9,821,131)	$ 218,185,844	$ 9,717,398

Note 5 - Long-Term Debt (continued)

B. Business Type Activity Debt (continued)

A summary of the terms of certificates of obligation and revenue bonds recorded in the Enterprise Funds as of September 30, 2017 follows:

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
Utility and Surface Water Funds				
Series 2008 Waterworks and Sewer System Revenue Bonds	$ 14,780,000	2028	3.5-5.0	$ 695,000
Series 2009 Waterworks and Sewer System Revenue Refunding Bonds	8,565,000	2018	2.75-3.50	655,000
Series 2009 Waterworks and Sewer System Revenue Bonds	29,490,000	2029	2.0-4.7	1,315,000
Series 2011 Combination Tax and Revenue Certificates of Obligation	98,810,000	2041	2.0-5.0	87,500,000
Series 2012 Waterworks and Sewer System Revenue Bonds	21,925,000	2031	1.5-3.25	17,795,000
Series 2012A Waterworks and Sewer System Revenue Refunding Bonds	9,025,000	2030	2.0-4.0	5,810,000
Series 2013 Waterworks and Sewer System Revenue Bonds	15,765,000	2033	2.5-4.0	13,285,000
Series 2015 Waterworks and Sewer System Revenue Refunding Bonds	15,750,000	2035	3.0-5.0	14,390,000
Series 2016 Waterworks and Sewer System Revenue Refunding Bonds	31,710,000	2036	2.0-5.0	31,495,000
Series 2016 Tax and Revenue Certificates of Obligation	1,620,000	2036	2.0-4.0	1,575,000
Series 2017 Waterworks and Sewer System Revenue Bonds	19,780,000	2037	3.0-5.0	19,780,000
Total Utility and Surface Water Funds Debt				$ 194,295,000
Airport Fund				
Series 2010 Combination Tax and Revenue Certificates of Obligation	450,000	2030	2.0-4.5	$ 27,398
Series 2012A General Obligation Refunding	5,610,000	2025	2.0-4.0	4,190,000
Series 2013 Tax and Revenue Certificates of Obligation	730,000	2033	2.5-4.0	610,000
Series 2015 Tax and Revenue Certificates of Obligation	1,670,000	2035	3.0-4.0	1,555,000
Series 2015 General Obligation Refunding	2,820,000	2028	2.0-5.0	2,615,000
Series 2016 General Obligation Refunding	225,000	2029	4.0-5.0	225,000
Series 2017 Tax and Revenue Certificates of Obligation	2,055,000	2037	3.0-5.0	2,055,000
Total Airport Fund Debt				$ 11,277,398
Total Enterprise Funds Long-Term Debt				$ 205,572,398

Note 5 - Long-Term Debt (continued)

B. Business Type Activity Debt (continued)

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

	Business-Type Activities					
	Revenue Bonds		Certificates of Obligation		General Obligation Bonds	
Year Ending Sept. 30	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 6,710,000	$ 3,997,194	$ 2,352,398	$ 4,135,342	$ 645,000	$ 269,650
2019	6,075,000	3,764,669	2,420,000	4,061,360	690,000	250,550
2020	6,280,000	3,550,069	2,520,000	3,984,848	710,000	227,000
2021	6,200,000	3,335,669	2,620,000	3,902,185	745,000	197,750
2022	6,440,000	3,108,769	2,730,000	3,803,841	775,000	168,600
2023	6,370,000	2,859,069	2,860,000	3,691,748	800,000	138,250
2024	6,655,000	2,581,319	2,985,000	3,574,423	835,000	103,075
2025	6,950,000	2,315,294	3,105,000	3,452,098	870,000	66,375
2026	7,260,000	2,010,806	3,230,000	3,324,801	295,000	40,225
2027	7,225,000	1,690,381	3,365,000	3,177,738	315,000	24,975
2028	7,525,000	1,398,856	3,510,000	3,022,341	330,000	8,950
2029	6,640,000	1,103,144	3,665,000	2,870,013	20,000	400
2030	4,980,000	850,894	3,835,000	2,697,760		
2031	4,915,000	691,894	4,005,000	2,516,343		
2032	3,355,000	527,944	4,195,000	2,336,244		
2033	3,475,000	409,156	4,390,000	2,138,041		
2034	2,480,000	285,044	4,565,000	1,920,906		
2035	2,565,000	199,725	4,795,000	1,693,716		
2036	1,765,000	111,475	4,910,000	1,462,806		
2037	1,355,000	47,425	5,040,000	1,229,772		
2038			5,145,000	982,625		
2039			5,410,000	718,750		
2040			5,690,000	441,250		
2041			5,980,000	149,500		
	$ 105,220,000	$ 34,838,794	$ 93,322,398	$ 61,288,449	$ 7,030,000	$ 1,495,800

C. Component Unit Long-Term Debt

The following is a summary of the long-term debt transactions of the Sugar Land 4B Corporation for the year ended September 30, 2017:

	Balance September 30, 2016	Increases	(Decreases)	Balance September 30, 2017	Amounts Due Within One Year
Bonds payable:					
Sales tax revenue bonds	$ 33,985,000		$ (1,885,000)	$ 32,100,000	$ 1,960,000
Issuance premiums/discounts	(14,859)		2,477	(12,382)	
Other liabilities:					
Obligation to State	21,309	90,638	(20,866)	91,081	34,599
	$ 33,991,450	$ 90,638	$ (1,903,389)	$ 32,178,699	$ 1,994,599

Note 5 - Long-Term Debt (continued)

C. Component Unit Long-Term Debt (continued)

A summary of the terms of the revenue bonds recorded as long-term liabilities in the Sugar Land 4B Corporation as of September 30, 2017 follows:

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
Series 2005 Sales Tax Revenue Bonds	$ 5,530,000	2025	4.0-6.0	$ 1,970,000
Series 2010 Sales Tax Revenue Refunding Bonds	9,195,000	2022	2.0-3.7	4,320,000
Series 2011 Sales Tax Revenue Bonds	30,145,000	2036	4.0-5.0	25,810,000
Total Component Unit Long-Term Debt				$ 32,100,000

The annual requirements to amortize component unit revenue bonds outstanding at September 30, 2017, are as follows:

	Sugar Land 4B Corporation Revenue Bonds	
Year Ending Sept. 30	**Principal**	**Interest**
2018	$ 1,960,000	$ 1,388,781
2019	2,025,000	1,316,344
2020	2,115,000	1,239,175
2021	2,195,000	1,156,850
2022	1,900,000	1,076,631
2023	1,330,000	1,011,694
2024	1,390,000	953,169
2025	1,460,000	888,863
2026	1,225,000	828,269
2027	1,290,000	771,681
2028	1,355,000	712,169
2029	1,425,000	648,728
2030	1,500,000	580,150
2031	1,580,000	506,013
2032	1,670,000	425,750
2033	1,765,000	339,875
2034	1,865,000	249,125
2035	1,970,000	153,250
2036	2,080,000	52,000
	$ 32,100,000	$ 14,298,517

D. Legal Compliance

Long-term debt assumed by the City upon dissolution of municipal utility districts in the current and previous years has been recorded as part of the City's long-term debt. A portion of the assumed debt is related to assets recorded in the Utility Fund. Even though the debt is related to assets recorded in the Utility Fund, the debt is considered general obligation debt based on Texas law. The dissolved area debt will be retired with tax revenue and operating transfers from the Utility Fund. The transfers from the Utility Fund to the Debt Service Fund are not intended to service specific general obligation debt. During the year, at the discretion of City Council, the Utility Fund made a transfer to the Debt Service Fund as indicated on the transfer schedule of $2.2 million.

Note 6 - Fund Balance/Net Position

The City records fund balance restrictions at the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures.

Fund balance restrictions for capital projects, economic development and tourism & marketing, for the year ended September 30, 2017 is as follows:

Restricted Fund Balance	Amount		Purpose
Debt Service	$	5,549,013	Debt Service activities
Capital projects	$	18,346,186	Construction & acquisition of capital assets
Non-major governmental funds	$	7,738,440	Debt Service
		7,655,992	Economic development activities
		215,855	Public safety
		1,395,355	Tourism & marketing
	$	17,005,642	

The Sugar Land 4B Corporation, a discretely presented component unit of the City, had a negative unrestricted net position balance at year-end of approximately $23 million. This deficit balance is caused by the Corporation issuing bonds for economic development related construction projects and transferring the capital assets to the primary government while retaining the related debt. As noted in Note 5, the debt is expected to be retired with future dedicated sales tax revenues.

Note 7 - Interfund Transactions

A summary of interfund transfers, the purpose of which is to cover operational expenses/expenditures, for the year ended September 30, 2017 is as follows:

Transfer In	Transfer Out	Amount	Purpose
General Fund	Utility Fund	$ 5,000	Operating costs for 311 center position
General Fund	GW Debt Reduction Fund	1,510,457	Annexation preparation
General Fund	NT Debt Reduction Fund	1,510,457	Annexation preparation
General Fund	Photographic Traffic Enforcement Fund	746,553	50% of net revenues for traffic safety
		3,772,467	
Debt Service Fund	Tourism Fund	1,408,697	Reimbursement for Conference Center, Smart Financial Centre & Plaza debt
Debt Service Fund	Utility Fund	2,180,082	Reimbursement for Annexed MUD debt
Debt Service Fund	Capital Projects	472,500	Developer Fees to cover the University Blvd. debt
Debt Service Fund	SLDC Fund	555,500	Reimbursement for Smart Financial Centre debt
		4,616,779	
Capital Project Fund	SLDC Fund	1,238,411	Reimbursement for Capital Projects
Capital Project Fund	Law Enforcement Grant Fund	109,000	Mobile command post
Capital Project Fund	Solid Waste Fund	300,000	Street rehabilitation
Capital Project Fund	General Fund	956,063	PAYG CIP
		2,603,474	
Tourism Fund	Capital Projects Fund	**425,000**	Reimburse Visitor Center funding
GW Debt Reduction Fund	General Fund	275,188	Sales Tax collected from Greatwood & Riverpark
NT Debt Reduction Fund	General Fund	150,000	Sales Tax collected from Riverpark
		425,188	
Enclave at River Park PID - Special Revenue Fund	General Fund	6,035	50% of property tax in PID collected during the year
Enclave at River Park PID - Special Revenue Fund	Debt Service Fund	5,157	50% of property tax in PID collected during the year
		11,192	
Airport Fund	General Fund	79,624	Property tax collected during the year on Airport value
Airport Fund	Debt Service Fund	68,046	Property tax collected during the year on Airport value
Airport Fund	SLDC Fund	50,000	International Marketing
		197,670	
Solid Waste Fund	GW Debt Reduction Fund	22,100	Annexation preparation
Solid Waste Fund	NT Debt Reduction Fund	22,100	Annexation preparation
		44,200	
		$ 12,095,970	

Note 7 - Interfund Transactions (continued)

On May 3, 2016 the City Council approved an inter-fund loan of $5.6 million from the Utility fund to the Capital Projects fund for the University Blvd. North extension project. The Utility fund is accumulating funds to support debt service for capital projects driven by new development and is not expected to need the funds through fiscal year 2020. The funds were transferred on May 3, 2016. A portion of this loan, $1,322,211, together with accrued interest will be reimbursed by the Sugar Land Development Corporation in 2019 and the remaining balance of $4,277,789 and accrued interest will be reimbursed by the developer no later than September 30, 2020. The interest on the loan will be accrued at 1.00% annually and will be paid with the principal amount in 2019 & 2020. The annual requirements to amortize this interfund loan are as follows:

	Principal	Interest	Balance
9/30/2017	$	$ 56,000	$ 5,600,000
9/30/2018		56,000	5,600,000
9/30/2019	1,322,211	56,000	4,277,789
9/30/2020	4,277,789	42,778	
	$ 5,600,000	$ 210,778	

On May 17, 2016 the City Council approved an inter-fund loan of $2 million from the Surface Water fund to the Airport fund and $1 million from the Surface Water fund to the Capital Projects fund to support the Westside Land Acquisition project. The funds were transferred on September 9, 2016. A portion of the loan, $2 million, will be reimbursed to the City by Federal Aviation Administration and the Airport Fund; the remaining portion will be reimbursed by the Sugar Land Development Corporation. Interest on the loan will be accrued annually and paid with the principal in 2018 & 2019. The annual requirements to amortize this interfund loan are as follows:

	Principal	Interest	Balance
9/30/2017	$	$ 30,000	$ 3,000,000
9/30/2018	1,500,000	30,000	1,500,000
9/30/2019	1,500,000	1,500	
	$ 3,000,000	$ 61,500	

Note 8 - Deferred Compensation Plan

The City maintains for its employees a tax-deferred compensation plan meeting the requirements of Internal Revenue Code Section 457. The plan was established in the 1995 fiscal year by City Ordinance and Nationwide Retirement Solutions, SBC Retirement Corporation and ICMA were appointed as plan administrators. The deferred compensation is not available to employees until termination, retirement, or death. However, while employed, deferred compensation may be available to employees in an unforeseen emergency or under certain loan provisions. The plan's trust arrangements are established to protect deferred compensation amounts of employees under the plan from any other use other than intended under the plan (eventual payment to employees deferring the compensation) in accordance with federal tax laws. Amounts of compensation deferred by employees under plan provisions are disbursed bi-weekly by the City to selected third-party administrators. The third-party administrators handle all funds in the plan and makes investment decisions and disburse funds to employees in accordance with plan provisions.

Note 9 - Employee Retirement System

Texas Municipal Retirement System

Plan Description and Provisions

The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

Benefits Provided

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

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

On the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 200% of the employee's accumulated contributions.

A summary of plan provisions for the City are as follows:

Employee deposit rate:	7%
Matching ratio (City to employee):	2 to 1
Years required for vesting:	5
Service retirement eligibility:	20 years at any age, 5 years at age 60 and above
Updated Service Credit:	100% Repeating Transfers
Annuity Increase to retirees:	70% of CPI Repeating
Supplemental death benefit – active employees and retirees	Yes

The City does not participate in Social Security.

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

Retirees or beneficiaries currently receiving benefits	189
Inactive employees entitled to but not yet receiving benefits	261
Active employees	705
	1,155

Note 9 - Employee Retirement System (continued)

Texas Municipal Retirement System (continued)

Contributions

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. For fiscal year 2017, the City made contributions of 14.71% for the months in 2016 and 14.85% for the months in 2017.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

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

Inflation:	2.5% per year
Overall payroll growth:	3.0% per year
Investment Rate of Return:	6.75%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

These actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Assumptions are reviewed annually. No additional changes were made for the 2016 valuation.

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

Note 9 - Employee Retirement System (continued)

Texas Municipal Retirement System (continued)

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

Asset Class	Target Allocation
U.S. equities	17.5%
International equities	17.5%
Core fixed income	10.0%
Non-core fixed income	20.0%
Real estate	10.0%
Real return	10.0%
Absolute return	10.0%
Private equity	5.0%
Total	100.0%

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will remain at the current 7% and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2015	$ 197,157,416	$ 166,144,780	$ 31,012,636
Changes for the year:			
Service cost	8,454,923		8,454,923
Interest	13,448,410		13,448,410
Difference between expected and actual experience	2,302,226		2,302,226
Contributions - employer		6,863,791	(6,863,791)
Contributions - employee		3,266,250	(3,266,250)
Net investment income		11,233,878	(11,233,878)
Benefit payments, including refunds, of employee contributions	(4,298,333)	(4,298,333)	
Administrative expense		(126,810)	126,810
Other charges		(6,832)	6,832
Net changes	19,907,226	16,931,944	2,975,282
Balance at 12/31/2016	$ 217,064,642	$ 183,076,724	$ 33,987,918

Note 9 - Employee Retirement System (continued)

Texas Municipal Retirement System (continued)

Sensitivity of the Net Pension Liability

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

	1% Decrease to 5.75%	Current Single Rate Assumption 6.75%	1% Increase to 7.75%
City's net pension liability	$ 68,603,458	$ 33,987,918	$ 5,880,410

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the City recognized pension expense of $7,843,797.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actuarial assumptions and actual experience	$	$ 433,872
Changes in actuarial assumptions used	4,140,205	1,464,229
Differences between projected and actual investment earnings	7,311,249	
Contributions subsequent to the measurement date	5,667,454	
Total	$ 17,118,908	$ 1,898,101

Note 9 - Employee Retirement System (continued)

Texas Municipal Retirement System (continued)

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

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of $5,667,453 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2017 (i.e. recognized in the City's fiscal year 2018 financial statements). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year	Net deferred outflows (inflows) of resources
2018	$ 2,970,825
2019	2,970,825
2020	2,597,179
2021	449,127
2022	438,501
Thereafter	126,896
Total	$ 9,553,353

Supplemental Death Benefits Fund

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for $7,500; this coverage is an "other postemployment benefit," or OPEB.

	Plan Year 2016	Plan Year 2017
The City offers supplemental death to:		
Active employees	Yes	Yes
Retirees	Yes	Yes

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

Note 9 - Employee Retirement System (continued)

Supplemental Death Benefits Fund (continued)

The City's contributions to the TMRS SDBF for the fiscal years ended 2017, 2016, and 2015 were $68,992, $60,135, and $61,795, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates

(Retiree-only portion of the rate, for OPEB)

Plan/Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2015	0.01%	0.01%	100%
2016	0.01%	0.01%	100%
2017	0.01%	0.01%	100%

City of Sugar Land Retiree Health Care Plan

GASB Statement 45 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (OPEB), established new accounting standards for postemployment benefits. The new standard does not require funding of OPEB expense, but any difference between the annual required contribution (ARC) and the amount funded during the year is required to be reported in the employer's financial statement as an increase (or decrease) in the net OPEB obligation. The effective date for implementation of GASB 45 by the City of Sugar Land was October 1, 2009. Accordingly, the City did obtain an actuarial valuation in accordance with GASB 45 as of December 31, 2016, and discloses the following:

Plan Description and Funding Policy

The City's retiree health care plan is a single-employer defined benefit plan. Employees who retire from the City of Sugar Land and receive an annuity from TMRS upon leaving the City's employment, and eligible dependents and survivors, are eligible to continue to participate in the City's health insurance programs at the "blended" employee group rate which is determined annually by the City of Sugar Land and approved by the City Council.

Prior to retiring employees may elect to continue to participate in the City's medical and dental benefits. To maintain coverage they must continuously pay the monthly premium of the plan and level selected. As of December 31, 2016, a total of eleven (11) retirees had elected to receive retiree health care coverage through the City's retiree health care plan.

Retirees pay 100% of the premium for self, spouse, and dependents. However, the City recognizes that there is an "implicit subsidy" arising as a result of the blended rate premium since retiree health care costs, on average, is higher than active employee health care costs. The plan is not accounted for as a trust fund as an irrevocable trust has not been established to fund the plan. The plan does not issue a separate financial report.

Note 9 - Employee Retirement System (continued)

Annual OPEB Cost and Net OPEB Obligation

The City's annual other post-employment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of accrual that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed thirty years.

The City's annual OPEB cost for the year ending September 30, 2017, is as follows:

Determination of Net OPEB Obligation (NOO)		
Annual required contribution	$	353,977
Interest on net OPEB obligation		62,055
Adjustment to ARC		(60,452)
Annual OPEB cost		355,580
Less contributions made		(101,055)
Increase in net OPEB obligation		254,525
Net OPEB obligation – beginning of year		1,551,384
Net OPEB obligation – end of year	$	1,805,909

The City's annual OPEB cost, the amount contributed by the employer, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending September 30, 2017 and the preceding two fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	$ 355,580	28.4%	$ 1,805,909
2016	301,829	33.5%	1,551,384
2015	292,903	72.8%	1,330,787

The percentage of annual OPEB cost contributed was higher in fiscal year 2015 because it includes the implicit subsidies which were not recognized in fiscal years 2013 and 2014.

Funded Status and Funding Progress

The funded status of the City's retiree health care plan, under GASB Statement No. 45 as of the most recent actuarial valuation, is as follows:

Actuarial Valuation Date as of December 31,	2016
Actuarial Accrued Liability (AAL)	$3,710,853
Actuarial value of plan assets	$0
Unfunded actuarial accrued liability (UAAL)	$3,710,853
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	$46,660,720
UAAL as a percentage of covered payroll	7.95%

Note 9 - Employee Retirement System (continued)

Funded Status and Funding Progress (continued)

Under the reporting parameters, the City's retiree health care plan is 0.0% funded with the actuarial accrued liability exceeding the actuarial assets by $3,710,853 at December 31, 2016. As of the most recent valuation, the ratio of the unfunded actuarial accrued liability to annual covered payroll is 7.95%.

Actuarial Methods and Assumptions

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

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

Significant methods and assumptions used for this valuation are as follows:

Measurement Date	12/31/2016
Actuarial Cost Method	Projected Unit Credit (PUC)
Amortization Period	30-year open amortization
Amortization Method	Level percentage of employee payroll
Discount Rate	4.0% per annum, net of expenses
CPI	3% per annum
Medical Trend	Initial rate of 7.5%, declining to an ultimate rate of 4.25% after 15 years
Payroll Growth Rate	3% per annum

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 10 - Contracts with Special Districts

Agreements with Utility Districts

The City has entered into utility agreements with six Municipal Utility Districts (Fort Bend MUDs No. 10, 136, 137, 138, 139 and Burney Road MUD) (the "Districts"), which are within the City's boundaries. The Districts are to acquire and construct water, wastewater, and drainage facilities to serve the area within the Districts and may issue bonds to finance such facilities. These utility agreements provide the following:

> As water, wastewater 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.
>
> 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.
>
> 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, 2017, were $3.50 million.

The City has entered into an agreement with various Fort Bend County Municipal Utility Districts (MUDs) in the Greatwood and Tara subdivisions within the City's extraterritorial jurisdiction (ETJ), for funding the operating expenses relating to a fire station located within the Greatwood subdivision. The City received $1,102,801 from the participating MUDs for the year ending September 30, 2017, in connection with these agreement.

The City has entered into fire protection agreements with various Fort Bend County Municipal Utility Districts (MUDs) within the City’s extraterritorial Jurisdiction (ETJ), to support operating expenses related to provision of fire services to these areas. The MUDs are located in the New Territory and Riverstone subdivisions. The City received $1,609,200 from these participating MUDs and $218,500 from Fort Bend County for the year ending September 30, 2017 in connection with these agreements.

Note 11 - Lease Agreements

Sugar Land Hotel Associates, L.P.

In 2002, the Sugar Land Town Square Development Authority (the "Authority") entered into a ninety-nine year lease agreement with Sugar Land Hotel Associates, L.P. (the "Tenant") for the rental of the Sugar Land Conference Center and Parking Garage (the "Property"), owned by the Authority. The Tenant has the right to use the Property and has agreed to operate the Property in a "first class manner," as defined in the lease agreement, paying the Authority a base rent of $1 per lease year, plus an incentive rent, as determined by the lease agreement, within 15 days after the Authority's receipt of an annual statement that presents the net cash flow and any net sale proceeds for the preceding lease year.

Sugar Land Baseball, LLC

In 2010, the City of Sugar Land entered into a twenty-five year lease agreement with Sugar Land Baseball, LLC for the rental of the Constellation Field (baseball stadium). Sugar Land Baseball, LLC owns “Skeeters” a minor league baseball team. The base annual rent of $80,000 is due to the City January 1st each lease year. In addition to the base rent, the City will receive participation rent equal to 40% of all gross revenues in excess of $2.6 million. In 2017 the City received $0 in addition to the base rent.

Note 11 Lease Agreements (continued)

Smart Financial Centre at Sugar Land

The Smart Financial Centre at Sugar Land reached substantial completion December 9, 2016 and the lease with ACE Sugar Land, LLC began December 14, 2016 under the terms of the first amendment to the development agreement and execution of lease agreement approved by City Council on October 28, 2014. The lease of the facility is for a term of 30 years from lease commencement date with lease payments due monthly in arrears. The lease agreement defines base rent, additional base rent, parking fees and participation rent and how each is calculated and when due to the City. ACE Sugar Land, LLC has provided City a letter of credit equal to the last three years' annual debt service requirements that will be reduced as additional base rent payments are set aside to build a three-year debt service reserve. ACE Sugar Land, LLC is responsible for all operations and maintenance of the Smart Financial Centre at Sugar Land during the term of the lease.

The lease payments are based on the following calculation: Base Rent: 1/12 of the annual debt service requirement for the Series 2014A Taxable Certificates of Obligation issued by the City to fund a portion of the project construction. Base rent is payable in arrears on the first day of the following month without demand. Rent payment resets each January 1 for the term of the lease. Beginning in the third year of the lease, and until a debt service reserve equal to the last three years debt service payments, the base rent increases to 125% of the annual debt service requirement. Under the lease agreement, the City is entitled to participation rent and a share of parking fees as well.

Note 12 - Commitments and Contingencies

Litigation and Other Contingencies

The City was involved in various lawsuits and arbitration proceedings at September 30, 2017. The City and its legal counsel believe that any amounts which the City might ultimately be required to pay will not exceed underlying insurance coverage.

Federally Assisted Programs - Compliance Audits

The City receives various grants, which are subject to audit by the respective agencies. Subsequent audits may disallow expenditures financed by government grants. It is the opinion of management that any disallowed expenditures, based on prior audit experience, will not be material in relation to the City's financial statements as of September 30, 2017.

Arbitrage Rebate

In accordance with the provisions of the Internal Revenue Code, sections 103, 103A, and 148, as amended, a governmental debt issuance must qualify and maintain tax-exempt status by satisfying certain arbitrage requirements contained in these provisions. As part of the requirements, certain amounts earned on the non-purpose investment of debt issuance proceeds, in excess of the yield on an issue, earned as arbitrage, will be required to be paid to the U.S. Treasury. As part of this process, the City annually determines potential arbitrage liabilities on its debt issues, on component unit debt issues and on debt issues assumed by the City from various Municipal Utility Districts.

Note 12 - Commitments and Contingencies (continued)

Economic Development Grant Commitments

The Sugar Land Development Corporation has committed economic development grants or incentives to various companies in targeted industries to be paid in the future on the condition that certain agreed upon criteria are met. The amounts currently committed are as follows:

Fiscal Year	Grant Commitments
2018	$ 899,000
2019	1,886,000
2020	960,000
2021	880,000
2022	910,000
2023	910,000
2024	590,000
2025	560,000
2026	545,000
2027	280,000
2028	250,000
2029	250,000
Totals	$ 8,920,000

Note 13 - Risk Management

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; pollution; injuries to employees; and natural disasters. The City's risk management program mainly encompasses obtaining property and liability insurance through Texas Municipal League's Intergovernmental Risk-Pool (TML-IRP), and through commercial insurance carriers. The participation of the City in TML-IRP is limited to payment of premiums. The City has not had any significant reduction in insurance coverage, and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years.

The City also provides Workers' Compensation insurance on its employees and volunteers through TML-Workers' Compensation Fund. Workers' Compensation premiums are subject to change when audited by TML-Workers' Compensation Fund. At September 30, 2017, the City believed the amounts paid on Workers' Compensation would not change significantly from the amounts recorded.

Note 13 - Risk Management (continued)

Employee Benefits Fund

Beginning January 1, 2012, the City started providing health benefits to its employees and dependents through a self-funded employee health benefit plan which is accounted for in the Employee Benefits Fund - Internal Service Fund. This fund is principally supported by contributions from the City and the employees. The City makes contributions to cover the majority of the premiums for employees, and the employees are required to make contributions to cover the remaining employee and dependent costs. The Internal Service Fund charges the City's General Fund and enterprise funds for the City's contributions. Payments of premiums and administrative fees are paid out of this fund. A third party administrator acting on behalf of the City processes health claim payments.

The City has obtained excess loss insurance which limits the City's claims paid to $175,000 annually for any individual occurrence and aggregate claims at 120% of expected.

Settled claims did not exceed insurance coverages in fiscal year 2017. Estimates of claims payable and of claims incurred, but not reported at September 30, 2017, are reflected as accrued expenses and claims payable of the Employee Benefits Fund - Internal Service Fund. The liabilities include an amount for claims that have been incurred but were not reported until after September 30, 2017. The liability reported in the fund is one of the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of the loss can be reasonable estimated. Because actual claims liabilities depend on such complex factors as inflation, changes in legal requirements, and damage awards, the process used in computing claims liability is an estimate based on historical claims.

Note 14 - Tax Abatements

In May 2016, the Sugar Land City Council approved Resolution No. 16-15, as required by Chapter 312 of the Texas Tax Code, to strengthen minimum guidelines and criteria governing tax abatement agreements in the City of Sugar Land. The City has an ad valorem tax abatement program that abates property taxes on new value created as a result of the proposed project, with possible abatements available from the City, Fort Bend County, and, as applicable, other taxing jurisdictions.

To be eligible to receive a tax abatement the guidelines stipulate that the company must add, at minimum, a value of $4 million to the tax rolls, with the exact abatement percentage determined by a tiered structure related to the cumulative value of improvements and personal property. The city's maximum abatement duration is 10 years with abatement percentages ranging from 35% to 100%. To receive their abatement each year, companies must submit compliance documentation to the City as outlined in their respective Tax Abatement Agreements. Compliance criteria may typically include, but are not limited to, the following requirements: minimum employee count, minimum average annual salary, minimum real, personal, and / or inventory value on tax roll, construction material / improvement receipts, minimum taxable sales, occupancy / lease requirements, and LEED certifications. Additionally, each company is required to submit their tax abatement application to the Fort Bend Central Appraisal District (FBCAD) by April 30th of each year to receive their abatement. The FBCAD will apply the abatement after confirming with the City that no deductions need to occur, which would only happen if a company did not meet a certain requirement of their Tax Abatement Agreement. Each agreement outlines how deductions will be calculated, if the noncompliance does not automatically result in a default for that year. The City typically includes a recapture clause in Tax Abatement Agreements that requires the company to return

Note 14 - Tax Abatements (continued)

all property taxes abated under the agreement with interest and penalties to the City should the City have to terminate the agreement due to noncompliance issues. The Office of Economic Development performs an annual assessment of the compliance performance for companies receiving tax abatements.

Currently, the City has 13 active tax abatement agreements under contract for tax year 2016. These companies comprise of approximately $233 million in real and personal property values. They also provide roughly $84 million in inventory values not subject to tax abatement exemptions. In tax year 2016, the City abated $141,315,267 in improvement and personal property value, and the revenue received for real and personal property for companies was $446,485 for tax year 2016.

Note 15 - Subsequent Events

Annexation of Municipal Utility Districts

On December 12, 2017, the City annexed and dissolved nine municipal utility districts in the City's extraterritorial jurisdiction under Strategic Partnership Agreements entered into in 2007. The City assumed all assets and liabilities of the districts at the time of dissolution. While the City will assume $34.33 million in outstanding debt, three of the districts have no outstanding debt, and the remaining districts retire their debt between 2018 & 2026. The districts bring into the annexation a combination of their 2017 debt service tax levy and/or debt service fund balance that is sufficient for the City to make their 2018 debt service payments. In FY2019 the City will levy a property tax on the $2.8 billion in taxable value in the districts that will be added to its 2018 tax roll to repay the outstanding bonds and support the cost of providing services to the annexed areas.

Departments across the City have been preparing for the annexation for several years, with funding for the interim needs coming from Debt Reduction Funds that have been set aside beginning in 2007 through the annexation just for this purpose. Use of the Debt Reduction Funds is restricted to uses authorized in the Strategic Partnership Agreements between the City and the districts. The combined Debt Reduction Funds accumulated $10.05 million in revenue from sales tax, out of city service charges and interest income through November 2017, which supported funding of $3.03 million in pre-annexation expenditures for FY17.

On November 15, 2016, City Council approved a FY17 budget amendment to add funding to begin preparation for the annexation. In total, the City added 74.5 full time equivalent positions, 37 vehicles and one ambulance, along with increasing contracts for services to be able to provide services to the annexed area. The City's estimated 2018 population (after the annexation) is 117,869, an increase of approximately 30,000 from the 2017 population estimate.

Refunding Bonds

On December 5, 2017, the City issued General Obligation Refunding Bonds Series 2017 in the par amount of $78,195,000 through a negotiated transaction that closed on December 28, 2017. The bonds refunded $80,935,000 par amount of Certificates of Obligation Series 2011 issued by the City to construct a surface water treatment plant, transmission lines and upgrades to groundwater plants to meet the mandated 30% reduction in groundwater usage by the Fort Bend Subsidence District. The refunding transaction yielded net present value savings of 12.96% of the refunded bonds.

Note 15 - Subsequent Events (continued)

Hurricane Harvey

Hurricane Harvey impacted the Texas Coast on August 25, 2017. Within days of land fall the City began receiving unprecedented torrential rainfall. As a result of this rainfall many of roadways into the City became impassable, and the City, along with the Houston Metro area, and Fort Bend County, began to take appropriate precautions asking residents to either stay home or evacuate depending on their location. This event caused retail businesses to shut their doors, and as expected the City saw a decline in their August Sales Tax collections, which are received in October. The primary sectors impacted were the Retail, and Food & Entertainment sectors. While Hurricane Harvey has impacted the first month collections of sales tax, this event isn’t expected to have much of an impact on property taxes. The City experienced relatively minor localized flooding, compared to the region.

The City did not sustain any significant damage and there was no interruption of water and sewer service. 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 10 commercial properties within the City that experienced flooding or other significant damage. The City requested reappraisal for approximately 250 flood damaged properties. There is no estimated impact to the taxable value at this time. Staff anticipates the impact to FY18 will be less than $75,000 including tax revenue lost from the pro-rata reductions and the cost of reappraisal.

The City incurred overtime expenses of approximately $780,000, which is 100% reimbursable. Debris collection is less than $100,000 and is 90% reimbursable. There was minor damage to City facilities. Damage 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. Damage estimates are approx. $3.5 million which should be 75% reimbursed by FEMA. City staff are still obtaining cost estimates and preparing project schedules.

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APPENDIX C

FORMS OF BOND COUNSEL'S OPINIONS

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January 9, 2019

WE HAVE ACTED as Bond Counsel for the City of Sugar Land, Texas, a municipal corporation of the State of Texas (the "City") in connection with an issue of bonds (the "Bonds") described as follows:

> CITY OF SUGAR LAND, TEXAS, GENERAL OBLIGATION REFUNDING BONDS, SERIES 2019, dated December 1, 2018, in the aggregate principal amount of $___________.
>
> The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the ordinance (the "Ordinance") adopted by the City Council of the City authorizing their issuance.

WE HAVE ACTED as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds and the obligations that are being refunded (the "Refunded Bonds") with the proceeds of the Bonds, as described in the Ordinance. The transcript contains certified copies of certain proceedings of the City and The Bank of New York Mellon Trust Company, N.A. (the "Escrow Agent"); the report (the "Report") of Grant Thornton, LLP, which verifies the sufficiency of the deposits made with the Escrow Agent for the defeasance of the Refunded Bonds and the mathematical accuracy of certain computations of the yield on the Bonds and the obligations acquired with the proceeds of the Bonds; certain certifications and representations and other material facts within the knowledge and control of the City, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds and the firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds. We have also examined executed Bond No. I-1 of this issue.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the City enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law;

(2) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, within the limits prescribed by law, upon all taxable property located within the City, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds; and

(3) The escrow agreement between the City and the Escrow Agent (the "Escrow Agreement") has been duly executed and delivered and constitutes a binding and enforceable agreement in accordance with its terms; the establishment of the escrow fund pursuant to the Escrow Agreement and the deposit made therein constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds; in reliance upon the accuracy of the calculations contained in the Report, the Refunded Bonds, having been discharged and paid, are no longer outstanding and the lien on and pledge of ad valorem taxes and other revenues as set forth in the ordinances authorizing their issuance will be appropriately and legally defeased; the holders of the Refunded Bonds may obtain payment of the principal of, redemption premium, if any, and interest in the Refunded Bonds only out of the funds provided therefor now held in escrow for that purpose by the Escrow Agent pursuant to the terms of the Escrow Agreement; and therefore the Refunded Bonds are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in such Escrow Agreement.

ALSO BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is our further opinion that, subject to the restrictions hereinafter described, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law and is not subject to the alternative minimum tax on individuals or, except as hereinafter described, corporations. The opinion set forth in the first sentence of this paragraph is subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted in the Ordinance to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

INTEREST ON all 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. The Tax Cuts and Jobs Act, signed into law on December 22, 2017, repeals the alternative minimum tax on corporations for taxable years beginning after December 31, 2017. Purchasers of Bonds are directed to the discussion entitled "TAX MATTERS - TAX EXEMPTION" set forth in the Official Statement.

EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. 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 qualified for the earned income tax credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

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January 9, 2019

WE HAVE ACTED as Bond Counsel for the City of Sugar Land, Texas, (the "City") in connection with an issue of certificates of obligation (the "Certificates") described as follows:

> CITY OF SUGAR LAND, TEXAS COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2019, dated December 1, 2018, in the aggregate principal amount of $____________.
>
> The Certificates bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Certificates and in the ordinance (the "Ordinance") adopted by the City Council of the City authorizing their issuance.

WE HAVE ACTED as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Certificates from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas and a transcript of certain certified proceedings pertaining to the issuance of the Certificates, as described in the Ordinance. The transcript contains certified copies of certain proceedings of the City, certain certifications and representations and other material facts within the knowledge and control of the City, upon which we rely, and certain other customary documents and instruments authorizing and relating to the issuance of the Certificates. We have also examined executed Certificate No. I-1 of this issue.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Certificates. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

> (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently in effect; the Certificates constitute valid and legally binding obligations of the City enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Certificates may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization,

moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Certificates have been authorized and delivered in accordance with law; and

(2) The Certificates are payable, both as to principal and interest, from, and secured by, the proceeds of a continuing, direct annual ad valorem tax, levied within the limits prescribed by law, against taxable property within the City, which taxes have been pledged irrevocably to pay the principal of and interest on the Certificates; and

(3) The Certificates are further secured by a limited and subordinate pledge of the net revenues, in an amount not to exceed $10,000, of the waterworks and sanitary sewer system of the City.

THE REVENUES TO BE derived from the operation of both the City's waterworks and sanitary sewer system after the payment of all operation and maintenance expenses thereof (the "Net Revenues"), in an amount not to exceed $10,000, are pledged to the payment of the principal of and interest on the Certificates, to the extent that ad valorem taxes may ever be insufficient or unavailable for said purpose; provided, however, that such pledge is junior and subordinate in all respects to the pledge of Net Revenues to the payment of any obligation of the City, whether authorized heretofore or hereafter, which the City designates as having a pledge senior to the pledge of Net Revenues to the payment of the Certificates.

THE CITY HAS RESERVED THE RIGHT to issue, for any lawful purpose at any time, in one or more installments, bonds, certificates of obligation and other obligations of any kind secured by a pledge of the Net Revenues that may be prior and superior in right to, on a parity with, or junior and subordinate to the pledge of Net Revenues securing the Certificates.

ALSO BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is our further opinion that, subject to the restrictions hereinafter described, interest on the Certificates is excludable from gross income of the owners thereof for federal income tax purposes under existing law and is not subject to the alternative minimum tax on individuals or, except as hereinafter described, corporations. The opinion set forth in the first sentence of this paragraph is subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 (the "Code"), that must be satisfied subsequent to the issuance of the Certificates in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted in the Ordinance to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Certificates in gross income for federal income tax purposes to be retroactive to the date of issuance of the Certificates. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Certificates in gross income of the owners thereof for federal income tax purposes.

INTEREST ON the Certificates 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 DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations, such as the Certificates, 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 qualified for the earned income tax credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Certificates.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Financial Advisory Services
Provided By

HilltopSecurities
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