

OFFICIAL STATEMENT

Dated November 5, 2019

Ratings:
S&P: "AA+"
Fitch: "AAA"
(see "OTHER INFORMATION
- Ratings" herein)

NEW ISSUE - Book-Entry-Only

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

**THE BONDS HAVE NOT BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT BONDS" FOR
FINANCIAL INSTITUTIONS**

**\$22,390,000
CITY OF GARLAND, TEXAS
(Dallas, Collin and Rockwall Counties)
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2019**

Dated Date: December 1, 2019

Interest to accrue from the date of initial delivery.

Due: February 15, as shown on page 2 hereof

PAYMENT TERMS. . . Interest on the \$22,390,000 City of Garland, Texas, General Obligation Refunding Bonds, Series 2019 (the "Bonds") will accrue from the date of initial delivery to the Initial Purchaser thereof (the "Initial Purchaser of the Bonds"), will be payable August 15 and February 15 of each year commencing August 15, 2020 until maturity or early redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a stated maturity. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is Zions Bancorporation, National Association, Amegy Bank Division, Houston, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE. . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Texas Government Code, Chapter 1207, as amended and are direct obligations of the City of Garland, Texas (the "City"), payable from a direct and 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 BONDS - Authority for Issuance of the Bonds").

PURPOSE. . . Proceeds from the sale of the Bonds will be used for (i) refunding a portion of the City's outstanding debt as shown on Schedule I hereto (the "Refunded Obligations") for a debt service savings, (ii) paying a portion of the City's outstanding general obligation commercial paper notes (the "Refunded Notes") (see "GENERAL OBLIGATION COMMERCIAL PAPER PROGRAM") and (iii) paying costs of issuing the Bonds.

CUSIP PREFIX: 366119

MATURITY SCHEDULE & 9 DIGIT CUSIP

See Schedule on Page 2

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Initial Purchaser of the Bonds and subject to the approving opinion of the Attorney General of Texas and the opinion of Norton Rose Fulbright US LLP, Dallas, Texas (see Appendix C, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the City by its Disclosure Counsel, Bracewell LLP, Dallas, Texas.

DELIVERY. . . It is expected that the Bonds will be available for delivery through DTC on December 3, 2019.

BOK FINANCIAL SECURITIES, INC.

MATURITY SCHEDULECUSIP Prefix: 366119 ⁽¹⁾

<u>Maturity</u>	<u>Par Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix ⁽¹⁾</u>
2/15/2021	\$ 775,000	5.000%	1.160%	5B7
2/15/2022	815,000	5.000%	1.190%	5C5
2/15/2023	855,000	5.000%	1.220%	5D3
2/15/2024	900,000	5.000%	1.260%	5E1
2/15/2025	930,000	2.000%	1.320%	5F8
2/15/2026	960,000	5.000%	1.420%	5G6
2/15/2027	1,010,000	5.000%	1.500%	5H4
2/15/2028	1,065,000	5.000%	1.580%	5J0
2/15/2029	1,115,000	5.000%	1.680%	5K7
2/15/2030	1,175,000	5.000%	1.740% ⁽²⁾	5L5
2/15/2031	1,085,000	5.000%	1.800% ⁽²⁾	5M3
2/15/2032	1,135,000	4.000%	2.060% ⁽²⁾	5N1
2/15/2033	1,180,000	4.000%	2.170% ⁽²⁾	5P6
2/15/2034	1,225,000	3.000%	2.460% ⁽²⁾	5Q4
2/15/2035	1,260,000	3.000%	2.500% ⁽²⁾	5R2
2/15/2036	1,300,000	3.000%	2.540% ⁽²⁾	5S0
2/15/2037	1,340,000	3.000%	2.580% ⁽²⁾	5T8
2/15/2038	1,380,000	3.000%	2.620% ⁽²⁾	5U5
2/15/2039	1,420,000	3.000%	2.650% ⁽²⁾	5V3
2/15/2040	1,465,000	3.000%	2.680% ⁽²⁾	5W1

(Interest to accrue from the delivery date.)

- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the City, the Financial Advisor, or the Initial Purchaser is responsible for the selection or the correctness of the CUSIP numbers set forth herein.
- (2) Priced to the February 15, 2029 optional redemption date.

OPTIONAL REDEMPTION. . . The City reserves the right, at its option, to redeem Bonds having a stated maturity on and after February 15, 2030, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2029, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption").

(THE REMAINDER OF THIS PAGE LEFT BLANK INTENTIONALLY)

No dealer, broker, salesman or other person has been authorized by the City to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Certain information set forth herein has been obtained from the City and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financial Advisor or the Initial Purchaser. Any information and expressions of opinion herein contained 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.

This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions or that they will be realized.

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

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

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

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

NEITHER THE CITY, THE INITIAL PURCHASER 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 SUCH INFORMATION HAS BEEN FURNISHED BY DTC.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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

THE COVER PAGES CONTAIN CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND ARE NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THE ENTIRE PRELIMINARY OFFICIAL STATEMENT, INCLUDING THE SCHEDULE ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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OFFICIAL STATEMENT SUMMARY

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

THE CITY..... The City of Garland, Texas (the “City”) is a political subdivision and home rule municipal corporation of the State of Texas (the “State”), located in Dallas, Collin and Rockwall Counties, Texas. The City covers approximately 57 square miles (see “INTRODUCTION - Description of the City”).

THE BONDS..... The Bonds are issued as \$22,390,000 General Obligation Refunding Bonds, Series 2019. The Bonds are issued as serial bonds maturing on February 15 in each of the years 2021 through 2040 (see “THE BONDS – Description of the Bonds”).

PAYMENT OF INTEREST ON THE BONDS..... Interest on the Bonds accrues from the date of delivery (anticipated to be December 3, 2019), and is payable August 15, 2020, and each February 15 and August 15 thereafter until maturity, or prior redemption (see “THE BONDS - Description of the Bonds”).

AUTHORITY FOR ISSUANCE FOR THE BONDS..... The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Texas Government Code, Chapter 1207, as amended and the Bond Ordinance passed by the City Council of the City (see “THE BONDS - Authority for Issuance of the Bonds”).

SECURITY FOR THE BONDS..... The Bonds constitute direct obligations of the City, payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the City, as provided in the Bond Ordinance (see “THE BONDS - Security and Source of Payment for the Bonds”).

OPTIONAL REDEMPTION..... The City reserves the right, at its option, to redeem Bonds having a stated maturity on and after February 15, 2030, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2029, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS - Optional Redemption”).

TAX EXEMPTION..... In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption “TAX MATTERS” herein.

USE OF PROCEEDS FOR THE BONDS..... Proceeds from the sale of the Bonds will be used for (i) refunding a portion of the City’s outstanding debt as shown on Schedule I hereto (the “Refunded Obligations”) for a debt service savings, (ii) paying a portion of the City’s outstanding general obligation commercial paper notes (the “Refunded Notes”) (See “GENERAL OBLIGATION COMMERCIAL PAPER PROGRAM”) and (iii) paying costs of issuing the Bonds.

RATINGS..... The Bonds have been rated “AA+” with a stable outlook by S&P Global Ratings, a division of S&P Global Inc. (“S&P”) and “AAA” with a stable outlook by Fitch Ratings (“Fitch”) (see “OTHER INFORMATION – Ratings”).

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

PAYMENT RECORD..... The City has never defaulted on its general obligation debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	Net G.O. Tax Debt Outstanding at End of Year ⁽³⁾	Ratio of Net G.O. Tax Debt to Taxable Assessed Valuation	Net G.O. Tax Debt Per Capita
2016	235,885	\$ 11,201,026,680 ⁽⁴⁾	\$ 47,485	\$ 245,970,000	2.20%	\$ 1,043
2017	236,786	12,393,886,711 ⁽⁵⁾	52,342	242,945,000	1.96%	1,026
2018	238,293	13,637,777,356 ⁽⁶⁾	57,231	247,600,000	1.82%	1,039
2019	239,684	15,094,762,333 ⁽⁷⁾	62,978	230,380,000	1.53%	961
2020	242,504	16,331,624,830 ⁽⁸⁾	67,346	233,560,000 ⁽⁹⁾	1.43% ⁽⁹⁾	963 ⁽⁹⁾

- (1) Source: Estimates of North Central Texas Council of Governments and the City Planning Department.
- (2) As reported by the Appraisal Districts (defined herein) on the City’s Annual State Property Tax Board Reports; subject to change during the ensuing year.
- (3) Does not include self-supporting debt. See “Table 1 – Valuation, Exemptions and General Obligation Debt” and “Table 11 - Computation of Self-Supporting Debt”
- (4) Includes taxable incremental value of approximately \$87,323,362 that is not available for the City’s general use.
- (5) Includes taxable incremental value of approximately \$100,977,108 that is not available for the City’s general use.
- (6) Includes taxable incremental value of approximately \$133,891,184 that is not available for the City’s general use.
- (7) Includes taxable incremental value of approximately \$158,339,512 that is not available for the City’s general use.
- (8) Includes taxable incremental value of approximately \$182,622,670 that is not available for the City’s general use.
- (9) Excludes the Refunded Obligations.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended September 30,				
	2018	2017	2016	2015	2014
Beginning Balance	\$35,198,425	\$27,049,006	\$25,744,782	\$25,729,669	\$24,263,870
Total Revenues	144,275,125	138,521,798	132,697,627	119,596,892	114,928,822
Total Expenditures	(182,616,542)	(167,152,700)	(166,838,360)	(153,452,734)	(146,692,773)
Net Transfers	38,076,329	36,780,321	35,444,957	33,870,955	33,229,750
Ending Balance	<u>\$34,933,337</u>	<u>\$35,198,425</u>	<u>\$27,049,006</u>	<u>\$25,744,782</u>	<u>\$25,729,669</u>

For additional information regarding the City, please contact:

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Scott Lemay Mayor	6 Months	May, 2021	Store Planner
David Gibbons District 1	3 Years	May, 2020	Retired
Debra Morris District 2	1 Year	May, 2020	Retired
Jerry Nickerson District 3	2 Years	May, 2021	Engineer
Jim Bookout District 4	1 Year	May, 2020	Retired
Richard Aubin Mayor Pro-Tem District 5	3 Years	May, 2020	Attorney
Robert Vera District 6	2 Years	May, 2021	Business Owner
Dylan Hedrick Deputy Mayor Pro-Tem District 7	6 Months	May, 2021	Engineer
Robert John Smith District 8	2 Years	May, 2021	Chief Information Security Officer

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service to City</u>
Bryan L. Bradford	City Manager	25 Years
Mitch Bates	Deputy City Manager	33 Years
John Baker	Assistant City Manager	35 Years
Matt Watson	Finance Director	12 Years
Eloyce René Dowl	City Secretary	10 Years

CONSULTANTS, ADVISORS AND INDEPENDENT AUDITORS

Independent Auditors Weaver & Tidwell
Dallas, Texas

Bond Counsel Norton Rose Fulbright US LLP
Dallas, Texas

Financial Advisor..... Hilltop Securities Inc.
Dallas, Texas

OFFICIAL STATEMENT
RELATING TO
\$22,390,000
CITY OF GARLAND, TEXAS
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2019

INTRODUCTION

This Official Statement, which includes Schedule I and the Appendices hereto, provides certain information regarding the issuance of \$22,390,000 City of Garland, Texas, General Obligation Refunding Bonds, Series 2019 (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance (the “Bond Ordinance”) to be adopted on the date of sale of the Bonds which will authorize the issuance of the Bonds, except as otherwise indicated herein.

This Official Statement contains descriptions of the Bonds and certain information regarding the City of Garland, Texas (the “City”) and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City’s Financial Advisor, Hilltop Securities Inc. (“HilltopSecurities”), Dallas, Texas.

DESCRIPTION OF THE CITY. . . The City is a political subdivision and municipal corporation of the State of Texas (the “State”), duly organized and existing under the laws of the State, including the City’s Home Rule Charter. The City was incorporated in 1891, and first adopted its Home Rule Charter in 1951, which Charter was last amended by election in May of 2007. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and eight Councilmembers. The term of office is two years with the term of office of the Mayor and four of the Councilmembers expiring in odd-numbered years and the terms of the other four Councilmembers expiring in even-numbered years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, electric, water and sanitary sewer utilities, sanitation collection services, health and social services, culture-recreation, public transportation, public improvements, planning and zoning, and general administrative services. The 2000 census population for the City was 215,768, while the 2010 census population was 226,876. The City’s estimated population for 2020 is 242,504. The City covers approximately 57 square miles.

PLAN OF FINANCING

PURPOSE. . . Proceeds from the sale of the Bonds will be used for (i) refunding a portion of the City’s outstanding debt as shown on Schedule I hereto (the “Refunded Obligations”) for a debt service savings, (ii) paying a portion of the City’s outstanding general obligation commercial paper notes (the “Refunded Notes”) (See “GENERAL OBLIGATION COMMERCIAL PAPER PROGRAM”) and (iii) paying costs of issuing the Bonds.

REFUNDED NOTES ... The principal and interest due on the Refunded Notes are to be paid on the redemption date of such Refunded Notes from funds to be deposited with U.S. Bank (the “Commercial Paper Notes Paying Agent”). The Bond Ordinance provides that from a portion of the proceeds of the sale of the Bonds, the City will deposit with the Commercial Paper Notes Paying Agent the amount necessary to accomplish the discharge and final payment of the Refunded Notes on the redemption date of December 3, 2019. By the deposit with the Commercial Paper Notes Paying Agent, the City will have effected the defeasance of all of the Refunded Notes in accordance with the law.

REFUNDED OBLIGATIONS ... The principal and interest due on the Refunded Obligations are to be paid on the redemption date of such Refunded Obligations from funds to be deposited pursuant to an Escrow Agreement (the “Escrow Agreement”) between the City and Zions Bancorporation, National Association, Amegy Bank Division, Houston, Texas (the “Escrow Agent”). The Bond Ordinance provides that from the proceeds of the sale of the Bonds received from the Initial Purchaser and other available City funds, if any are necessary, the City will deposit with the Escrow Agent the amount that, together with investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Obligations on their redemption date. Such funds will be held by the Escrow Agent in a special escrow account (the “Escrow Fund”) and used to purchase direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States, (the “Escrowed Securities”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Obligations.

Samuel Klein and Company, a firm of independent certified public accountants, will verify at the time of delivery of the Bonds to the Underwriters the mathematical accuracy of the schedules that demonstrate the Escrowed Securities will mature and pay interest on such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations. Such funds in the Escrow Fund will not be available to pay the Bonds (see “OTHER INFORMATION - Verification of Arithmetical and Mathematical Computations”).

By the deposit of a portion of the Bond proceeds, cash, if necessary, and the Escrowed Securities purchased with a portion of the Bond proceeds, with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of all of the Refunded Obligations in accordance with the law. It is the opinion of Bond Counsel that, as a result of such defeasance and in reliance upon the report of Samuel Klein and Company, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Escrowed Securities and any cash held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the City.

In the Escrow Agreement, the City covenants to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Obligations, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

USE OF BOND PROCEEDS . . Proceeds from the sale of the Bonds, together with the available funds of the City, if any, are expected to be expended as follows:

Sources of Funds	
Par Amount of Bonds	\$ 22,390,000.00
Net Premium	2,628,884.47
	<hr/>
Total Sources of Funds	<u><u>\$ 25,018,884.47</u></u>
Uses of Funds	
Deposit to Refunding Escrow	\$ 1,369,381.28
Payment of Refunded Notes	23,500,000.00
Costs of Issuance	149,503.19
	<hr/>
Total Uses of Funds	<u><u>\$ 25,018,884.47</u></u>

THE BONDS

DESCRIPTION OF THE BONDS . . The Bonds are dated December 1, 2019, and are scheduled to mature on February 15 in each of the years 2021 through 2040 in the amounts shown on page 2 hereof. Interest on the Bonds will accrue from the date of initial delivery to the Initial Purchaser, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable, on August 15 and February 15 of each year commencing August 15, 2020 until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”) pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “THE BONDS - Book-Entry-Only System” herein.

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

AUTHORITY FOR ISSUANCE OF THE BONDS . . The Bonds are being authorized and issued pursuant to the Constitution and general laws of the State, particularly Texas Government Code, Chapter 1207, as amended, and the Bond Ordinance.

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS . . All taxable property within the City is subject to a direct and continuing annual ad valorem tax levied by the City, within the limits prescribed by law, sufficient to provide for the payment of principal of and interest on the Bonds.

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

Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt, based on a 90% tax collection rate as calculated at the time of issuance.

OPTIONAL REDEMPTION. . . The City reserves the right, at its option, to redeem Bonds having a stated maturity on and after February 15, 2030, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2029, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

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

With respect to any optional redemption of the Bonds, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon the satisfaction of any prerequisites set forth in such notice of redemption; and, if sufficient moneys are not received, such notice shall be of no force and effect, the City shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

DEFEASANCE. . . The Bond Ordinance provides for the defeasance of the Bonds, when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar, or other authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Government Securities to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The Bond Ordinance provides that "Government Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (d) any other then authorized securities or obligations that may be used to defease obligations such as the Bonds under applicable laws of the State of Texas. The City has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

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

Upon such deposit as described above, the applicable Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that any right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

AMENDMENTS. . . The City may, without the consent of or notice to any Holders of the Bonds, from time to time and at any time, amend the Bond Ordinance in any manner not detrimental to the interests of the Holders of the Bonds, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the written consent of Holders of a majority in aggregate principal amount of the Bonds, as applicable, then Outstanding, amend, add to, or rescind any of the provisions of the Bond Ordinance; provided that, without the consent of all Holders of Outstanding Bonds, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds, required to be held by Holders for consent to any such amendment, addition, or rescission.

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

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate will be issued for each maturity of the Bonds in the aggregate principal amount of each such maturity 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"). DTC has Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through DTC Participants, which will receive a credit for such purchases on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct or Indirect 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 transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Bonds 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 Bonds, except in the event that use of the book-entry system described herein is discontinued.**

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

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

the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

Effect of Termination of Book-Entry-Only System... In the event that the Book-Entry-Only System is discontinued, printed Bond certificates will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Bond Ordinance and summarized under "THE BONDS - Transfer, Exchange and Registration" herein.

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

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

PAYING AGENT/REGISTRAR. . . The initial Paying Agent/Registrar is Zions Bancorporation, National Association dba Amegy Bank, Houston, Texas. In the Bond Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid, and any successor Paying Agent/Registrar shall be a bank, trust company, financial institution or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

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

RECORD DATE FOR INTEREST PAYMENT. . . The record date (“Record Date”) for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a “Special Record Date”) will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

BONDHOLDERS’ REMEDIES. . . If the City defaults in the payment of principal, interest or redemption price, as applicable, on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Ordinance, or defaults in the observation or performance of any other covenants, conditions or obligations set forth in the Bond Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Bond Ordinance and the City’s obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Bond Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Bonds upon any failure of the City to perform in accordance with the terms of the Bond Ordinance, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W. 3d 427 (Tex. 2016) (“Wasson”) 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. The Texas Supreme Court reviewed *Wasson* again in June 2018 and clarified that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore in regard to municipal contract cases (as in tort claims) it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance at the time of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. If sovereign immunity is determined by a court to exist, then the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the Texas legislature has effectively waived the City’s sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or the covenants in the Bond Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City’s property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Bonds of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce creditors’ rights would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bond Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

AD VALOREM PROPERTY TAXATION

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title 1 of the Texas Tax Code, as amended (the “Property Tax Code”), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

VALUATION OF TAXABLE PROPERTY. . . The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the “Appraisal Review Board”) responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of the Dallas Central Appraisal District, the Collin Central Appraisal District and the Rockwall Central Appraisal District (collectively, the “Appraisal District”). Except as generally described below, the Appraisal District is required 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, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief

appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (the "10% Homestead Cap"). The 10% increase is cumulative, meaning the maximum increase is 10% times the number of years since the property was last appraised.

State law provides that eligible owners of both agricultural land and open-space land, 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 as both agricultural and open-space land.

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates (see "AD VALOREM PROPERTY TAXATION – City and Taxpayer Remedies").

STATE MANDATED HOMESTEAD EXEMPTIONS. . . State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

LOCAL OPTION HOMESTEAD EXEMPTIONS. . . The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and of disabled persons. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

LOCAL OPTION FREEZE FOR THE ELDERLY AND DISABLED. . . The governing body of a county, municipality or junior college district may, at its option, provide for a freeze on the total amount of ad valorem taxes levied on the homesteads of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon voter initiative, an election may be held to determine by majority vote whether to establish such a freeze on ad valorem taxes. Once the freeze is established, the total amount of taxes imposed on such homesteads cannot be increased except for certain improvements, and such freeze cannot be repealed or rescinded.

PERSONAL PROPERTY. . . Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the "production of income" is taxed based on the property's market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property.

FREEPORT AND GOODS-IN-TRANSIT EXEMPTIONS. . . Certain goods that are acquired in or imported into the State to be forwarded outside the State, and are detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue taxing Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal.

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days ("Goods-in-Transit"), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer's motor vehicle, boat, or heavy equipment inventory.

A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

OTHER EXEMPT PROPERTY. . . Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property.

TAX INCREMENT REINVESTMENT ZONES. . . A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment reinvestment zones (“TIRZ”) within its boundaries. At the time of the creation of the TIRZ, a “base value” for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the “tax increment”. During the existence of the TIRZ, all or a portion of the taxes levied against the tax increment by a city or county, and all other overlapping taxing units that elected to participate, are restricted to paying only planned project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units.

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

For a discussion of how the various exemptions described above are applied by the City, see “AD VALOREM PROPERTY TAXATION – City Application of Property Tax Code” herein.

CITY AND TAXPAYER REMEDIES. . . Under certain circumstances, taxpayers and taxing units, including the City, may appeal the determinations of the Appraisal District by timely initiating a protest with the Appraisal Review Board. Additionally, taxing units such as the City may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

Beginning in the 2020 tax year, owners of certain property with a taxable value in excess of the current year “minimum eligibility amount”, as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$50 million for the 2020 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda that could result in the repeal of certain tax increases (see “AD VALOREM PROPERTY TAXATION – Public Hearing and Maintenance and Operations Tax Rate Limitations”). The Property Tax Code also establishes a procedure for providing notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

LEVY AND COLLECTION OF TAXES. . . The City is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the City. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the City may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances.

CITY’S RIGHTS IN THE EVENT OF TAX DELINQUENCIES. . . Taxes levied by the City are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the City, having power to tax the property. The City’s tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the City is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property.

Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer’s debt.

Federal bankruptcy law provides that an automatic stay of actions 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.

PUBLIC HEARING AND MAINTENANCE AND OPERATIONS TAX RATE LIMITATIONS. . . The following terms as used in this section have the meanings provided below:

“adjusted” means lost values are not included in the calculation of the prior year’s taxes and new values are not included in the current year’s taxable values.

“de minimis rate” means the maintenance and operations tax rate that will produce the prior year’s total maintenance and operations tax levy (adjusted) from the current year’s values (adjusted), plus the rate that produces an additional \$500,000 in tax revenue when applied to the current year’s taxable value, plus the debt service tax rate.

“no-new-revenue tax rate” means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year’s total tax levy (adjusted) from the current year’s total taxable values (adjusted).

“special taxing unit” means a city for which the maintenance and operations tax rate proposed for the current tax year is 2.5 cents or less per \$100 of taxable value.

“unused increment rate” means the cumulative difference between a city’s voter-approval tax rate and its actual tax rate for each of the tax years 2020 through 2022, which may be applied to a city’s tax rate in tax years 2021 through 2023 without impacting the voter-approval tax rate.

“voter-approval tax rate” means the maintenance and operations tax rate that will produce the prior year’s total maintenance and operations tax levy (adjusted) from the current year’s values (adjusted) multiplied by 1.035, plus the debt service tax rate, plus the “unused increment rate”.

The City’s tax rate consists of two components: (1) a rate for funding of maintenance and operations expenditures in the current year (the “maintenance and operations tax rate”), and (2) a rate for funding debt service in the current year (the “debt service tax rate”). Under State law, the assessor for the City must submit an appraisal roll showing the total appraised, assessed, and taxable values of all property in the City to the City Council by August 1 or as soon as practicable thereafter.

A city must annually calculate its voter-approval tax rate and no-new-revenue tax rate in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

As described below, the Property Tax Code provides that if a city adopts a tax rate that exceeds its voter-approval tax rate or, in certain cases, its de minimis rate, an election must be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

A city may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until each appraisal district in which such city participates has delivered notice to each taxpayer of the estimated total amount of property taxes owed and the city has held a public hearing on the proposed tax increase.

For cities with a population of 30,000 or more as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the voter-approval tax rate, that city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

For cities with a population less than 30,000 as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the greater of (i) the voter-approval tax rate or (ii) the de minimis rate, the city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate. However, for any tax year during which a city has a population of less than 30,000 as of the most recent federal decennial census and does not qualify as a special taxing unit, if a city’s adopted tax rate is equal to or less than the de minimis rate but greater than both (a) the no-new-revenue tax rate, multiplied by 1.08, plus the debt service tax rate or (b) the city’s voter-approval tax rate, then a valid petition signed by at least three percent of the registered voters in the city would require that an election be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

Any city located at least partly within an area declared a disaster area by the Governor of the State or the President of the United States during the current year may calculate its voter-approval tax rate using a 1.08 multiplier, instead of 1.035, until the earlier of (i) the second tax year in which such city’s total taxable appraised value exceeds the taxable appraised value on January 1 of the year the disaster occurred, or (ii) the third tax year after the tax year in which the disaster occurred.

State law provides cities and counties in the State the option of assessing a maximum one-half percent (1/2%) sales and use tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional sales and use tax for ad valorem tax reduction is approved and levied, the no-new-revenue tax rate and voter-approval tax rate must be reduced by the amount of the estimated sales tax revenues to be generated in the current tax year.

The calculations of the no-new-revenue tax rate and voter-approval tax rate do not limit or impact the City's ability to set a debt service tax rate in each year sufficient to pay debt service on all of the City's tax-supported debt obligations, including the Bonds.

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

DEBT TAX RATE LIMITATIONS. . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax-supported debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 of Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all debt service on ad valorem tax-supported debt, as calculated at the time of issuance.

CITY APPLICATION OF PROPERTY TAX CODE. . . The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$51,000; the disabled are also granted an exemption of \$51,000.

The City has granted an additional exemption of 8% of the market value of residence homesteads; minimum exemption of \$5,000.

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

Ad valorem taxes are levied by the City against the exempt value of residence homesteads for the payment of debt.

The City does not tax nonbusiness personal property; and the City collects its taxes.

The City does not permit split payments, and discounts are not allowed.

The City does not tax freeport property.

The City does tax goods-in-transit.

The City has adopted a tax abatement policy which is described below.

The City has not adopted a freeze on property taxes of an individual over 65 and disabled.

TAX ABATEMENT POLICY. . . The City has established a tax abatement program to encourage economic development. In order to be considered for tax abatement, a project must meet several criteria pertaining to job creation and property value enhancement. Generally, projects are eligible for abatement for a period of five years. See "FINANCIAL INFORMATION - Table 1 - Valuation, Exemptions and General Obligation Debt" for a listing of the amounts of the exemptions described above and other exemptions.

TAX INCREMENT FINANCE ZONES...The City has established three tax increment reinvestment zones ("Zones"). The Tax Increment Revenues from the Zones are not available to pay the Certificates. Taxes assessed and collected against the base value in the Zones may be used for general fund purposes. However, taxes assessed and collected against the assessed valuation of real property in the Zones in excess of the tax increment bases ("Tax Increment Revenues") are restricted to pay or finance projects within the Zones.

Tax Increment Financing Reinvestment Zone Number One ("Zone One"), comprised of approximately 412 taxable acres is an area of the City bounded by the downtown district and west along Forest Avenue to Jupiter Road. The tax increment base value for Zone One established on January 1, 2004 was \$102,575,503. The Taxable Assessed Value for Zone One is \$221,979,398 providing an incremental value of \$119,403,895 for Zone One. The City has not entered into any economic incentive agreements in Zone One. The City issued certificates of obligation on June 6, 2013, a portion of the certificates were issued in conjunction with the second phase of the transit-oriented City Center Development. The certificates funded a 330 space parking structure, public open space adjacent to the Granville Arts Center, a new exterior façade for city hall and various infrastructure improvements. A portion of the debt service on such certificates is currently paid from tax increment revenues available from Zone One. The Zone One tax increment revenue supported debt matures on February 15, 2025 and as of August 31, 2019 has a principal balance of \$2,025,000.

Tax Increment Financing Reinvestment Zone Number Two ("Zone Two") is comprised of approximately 520 taxable acres in an area of the City along Interstate Highway 30 from the City limit east to Lake Ray Hubbard. The tax increment base value for the Zone Two established on January 1, 2005 was \$75,181,891. The Taxable Assessed Value for Zone Two is \$137,272,796 providing an incremental value of \$62,090,905 for Zone Two. On September 1, 2005, the City issued \$23,745,000 of Taxable General Obligation Bonds, Series 2005 to fund improvements and economic development for Zone Two. The Series 2005 Bonds were refunded on February 15, 2007 with City of Garland, Texas General Obligation Refunding Bonds, Taxable Series 2007B. The Series 2007B Bonds were subsequently refunded on February 19, 2015 with the issuance of City of Garland, Texas General Obligation Refunding Bonds, Taxable Series 2015B. Series 2015B Bonds are currently paid from a combination of the Tax Increment Revenues available from Zone Two and City-wide ad valorem taxes to the extent the Tax Increment Revenues from

Zone Two are insufficient to pay all of the debt service on the Series 2015B Bonds. The Series 2015B Bonds mature on February 15, 2025 and as of August 31, 2019 had an outstanding principal balance of \$20,690,000.

Tax Increment Financing Reinvestment Zone Number Three (“Zone Three”) was approved by City Council on April 3, 2018 and is generally located at the intersection of Buckingham Road and Shiloh Road. The Tax Increment base value for Zone Three established as of January 1, 2018 was \$25,150,851. The Taxable Assessed Value for Zone Three is \$26,278,721 providing an incremental value of \$1,127,870 for Zone Two.

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TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2019/2020 Market Valuation Established by the Collin, Dallas and Rockwall Central Appraisal Districts		\$ 19,259,346,241
Less Exemptions/Reductions at 100% Market Value:		
Residential Homestead	\$ 625,414,763	
Over 65	729,166,880	
Disabled Persons	74,035,872	
Disabled Veterans	43,941,117	
Pollution Control	1,314,507	
Freeport	556,924,077	
10% Homestead Cap	796,362,599	
Prorated Total Exempt	86,929,339	
Productivity Loss	4,317,289	
Tax Abatement Reductions	9,314,968	2,927,721,411
		<hr/>
2019/2020 Taxable Assessed Valuation		\$ 16,331,624,830
General Obligation Debt Payable from Ad Valorem Taxes (as of October 15, 2019) ⁽¹⁾	\$ 308,170,000	
The Bonds	22,390,000	
		<hr/>
Total General Obligation Debt Payable from Ad Valorem Taxes (as of October 15, 2019)		\$ 330,560,000
Less: Self Supporting Debt Balance (as of October 15, 2019) ⁽²⁾		
Wastewater	\$ 3,550,000	
Water	1,045,000	
Communications	230,000	
Electric ⁽³⁾	21,365,000	
Customer Service	14,535,000	
Environmental Waste Services	10,275,000	
Fleet Services	1,685,000	
Information Technology Services	3,635,000	
Warehouse	10,000	
Stormwater	1,670,000	
Downtown TIF	2,025,000	\$ 60,025,000
		<hr/>
Net General Obligation Debt Payable from Ad Valorem Taxes		\$ 270,535,000
		<hr/>
General Obligation Interest and Sinking Fund (unaudited as of September 30, 2019)		\$ 5,602,657
		<hr/>
Ratio Net General Obligation Tax Debt to Taxable Assessed Valuation		1.66%
2020 Estimated Population - 242,504		
Per Capita Taxable Assessed Valuation - \$67,346		
Per Capita Net General Obligation Debt Payable from Ad Valorem Taxes - \$1,116		

(1) Excludes refunded portion of Combination Tax and Revenue Certificates of Obligation, Series 2010. Excludes refunded portion of Combination Tax and Electric Utility System Revenue Refunding Bonds, Series 2010 which are expected to be refunded with the proceeds of the City's Electric Utility System Revenue Refunding Bonds, New Series 2019A being issued concurrently with the Bonds.

(2) The City currently pays debt service on a portion of its outstanding general obligation debt from other available revenue of the City as set forth in "Table 11 - Computation of Self-Supporting Debt." It is the City's current policy to provide these payments from such revenues; provided this policy is subject to change in the future. In the event payment is not made from such revenues, the City will be required to assess an ad valorem tax sufficient to make such payments. See "Table 11 - Computation of Self-Supporting Debt" for additional information. Includes a portion of the Bonds; preliminary, subject to change.

(3) Excludes the refunded portion of Combination Tax and Electric Utility System Revenue Refunding Bonds, Series 2010 which are expected to be refunded with the proceeds of the City's Electric Utility System Revenue Refunding Bonds, New Series 2019A being issued concurrently with the Bonds.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2020		2019		2018	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 11,929,454,953	61.94%	\$ 11,139,115,895	62.63%	\$ 9,737,951,337	61.09%
Real, Residential, Multi-Family	1,461,979,990	7.59%	1,269,295,880	7.14%	1,045,545,930	6.56%
Real, Vacant Lots/Tracts	224,440,459	1.17%	224,909,919	1.26%	206,372,073	1.29%
Real, Acreage (Land Only)	87,361,360	0.45%	82,190,130	0.46%	88,602,950	0.56%
Real, Farm and Ranch Improvements	980,260	0.01%	995,620	0.01%	1,114,290	0.01%
Real, Commercial	2,879,151,900	14.95%	2,668,913,940	15.01%	2,455,242,620	15.40%
Real, Industrial	177,509,760	0.92%	152,494,380	0.86%	203,893,720	1.28%
Real and Tangible Personal, Utilities	149,819,463	0.78%	129,998,418	0.73%	128,807,437	0.81%
Tangible Personal, Commercial	1,399,631,216	7.27%	1,276,775,811	7.18%	1,293,581,133	8.12%
Tangible Personal, Industrial	903,703,290	4.69%	794,451,220	4.47%	732,183,930	4.59%
Tangible Personal, Other	167,170	0.00%	183,800	0.00%	135,650	0.00%
Real Property, Inventory	-	0.00%	-	0.00%	45,094,800	0.28%
Special Inventory	45,146,420	0.23%	45,001,860	0.25%	1,730,910	0.01%
Totally Exempt Property	-	0.00%	-	0.00%	-	0.00%
Total Appraised Value Before Exemptions	\$ 19,259,346,241 ⁽¹⁾	100.00%	\$ 17,784,326,873 ⁽¹⁾	100.00%	\$ 15,940,256,780 ⁽¹⁾	100.00%
Less: Total Exemptions/Reductions	2,927,721,411		2,689,564,540		2,302,479,424	
Taxable Assessed Value	\$ 16,331,624,830 ⁽²⁾		\$ 15,094,762,333 ⁽³⁾		\$ 13,637,777,356 ⁽⁴⁾	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2017		2016	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 8,738,914,956	56.41%	\$ 7,637,053,540	55.43%
Real, Residential, Multi-Family	968,606,840	6.25%	895,852,080	6.50%
Real, Vacant Lots/Tracts	381,538,995	2.46%	336,359,539	2.44%
Real, Acreage (Land Only)	82,019,445	0.53%	65,285,680	0.47%
Real, Farm and Ranch Improvements	1,248,930	0.01%	1,293,445	0.01%
Real, Commercial	3,049,236,910	19.68%	2,858,864,420	20.75%
Real, Industrial	198,411,280	1.28%	196,916,170	1.43%
Real and Tangible Personal, Utilities	135,357,504	0.87%	128,803,331	0.93%
Tangible Personal, Commercial	1,219,884,722	7.87%	983,384,663	7.14%
Tangible Personal, Industrial	670,329,260	4.33%	629,974,320	4.57%
Tangible Personal, Other	118,720	0.00%	124,510	0.00%
Real Property, Inventory	326,300	0.00%	2,908,500	0.02%
Special Inventory	44,558,440	0.29%	40,382,790	0.29%
Totally Exempt Property	638,348	0.00%	-	0.00%
Total Appraised Value Before Exemptions	\$ 15,491,190,650 ⁽¹⁾	100.00%	\$ 13,777,202,988 ⁽¹⁾	100.00%
Less: Total Exemptions/Reductions	3,097,303,939		2,576,176,308	
Taxable Assessed Value	\$ 12,393,886,711 ⁽⁵⁾		\$ 11,201,026,680 ⁽⁶⁾	

NOTE: All valuations shown are certified taxable assessed values reported by the Appraisal Districts to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal Districts update records.

- (1) Includes Totally Exempt property as reported by Dallas Central Appraisal District, Collin Central Appraisal District and Rockwall Central Appraisal District.
- (2) Includes taxable incremental value of approximately \$182,622,670 that is not available for the City's general use.
- (3) Includes taxable incremental value of approximately \$158,339,512 that is not available for the City's general use.
- (4) Includes taxable incremental value of approximately \$133,891,184 that is not available for the City's general use.
- (5) Includes taxable incremental value of approximately \$100,977,108 that is not available for the City's general use.
- (6) Includes taxable incremental value of approximately \$87,323,362 that is not available for the City's general use.

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	Net G.O. Tax Debt Outstanding at End of Year ⁽³⁾	Ratio of Net G.O. Tax Debt to Taxable Assessed Valuation	Net G.O. Tax Debt Per Capita
2016	235,885	\$ 11,201,026,680 ⁽⁴⁾	\$ 47,485	\$ 245,970,000	2.20%	\$ 1,043
2017	236,786	12,393,886,711 ⁽⁵⁾	52,342	242,945,000	1.96%	1,026
2018	238,293	13,637,777,356 ⁽⁶⁾	57,231	247,600,000	1.82%	1,039
2019	239,684	15,094,762,333 ⁽⁷⁾	62,978	230,380,000	1.53%	961
2020	242,504	16,331,624,830 ⁽⁸⁾	67,346	233,560,000 ⁽⁹⁾	1.43% ⁽⁹⁾	963 ⁽⁹⁾

(1) Source: Estimates of North Central Texas Council of Governments and the City Planning Department.

(2) As reported by the Appraisal Districts (defined herein) on the City's Annual State Property Tax Board Reports; subject to change during the ensuing year.

(3) Does not include self-supporting debt. See "Table 1 – Valuation, Exemptions and General Obligation Debt" and "Table 11 - Computation of Self-Supporting Debt"

(4) Includes taxable incremental value of approximately \$87,323,362 that is not available for the City's general use.

(5) Includes taxable incremental value of approximately \$100,977,108 that is not available for the City's general use.

(6) Includes taxable incremental value of approximately \$133,891,184 that is not available for the City's general use.

(7) Includes taxable incremental value of approximately \$158,339,512 that is not available for the City's general use.

(8) Includes taxable incremental value of approximately \$182,622,670 that is not available for the City's general use.

(9) Excludes the Refunded Obligations.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2016	\$ 0.7046	\$ 0.3940	\$ 0.3106	\$ 78,610,052	99.26%	99.62%
2017	0.7046	0.3940	0.3106	86,774,848	99.21%	99.56%
2018	0.7046	0.3940	0.3106	95,302,690	99.26%	99.47%
2019	0.7046	0.3940	0.3106	105,602,819	99.01% ⁽¹⁾	99.25% ⁽¹⁾
2020	0.7696	0.3940	0.3756	125,688,185	NA	NA

(1) As of August 31, 2019

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2019/2020 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Kraft Heinz Food Company	Food manufacturer	\$ 111,388,300	0.68%
Simon Property Group	Real estate investor	105,250,000	0.64%
Ragingwire Data Centers Inc.	Data center	74,168,700	0.45%
Worthing Campfire LP	Real estate investor	58,320,610	0.36%
Ragingwire Data Centers Inc.	Data center	56,658,890	0.35%
Western RIM Investors 2015-3 LP	Real estate	45,142,300	0.28%
Atmos Energy Mid Tex	Public Utility	44,742,840	0.27%
BR Archco Domain Ph1 LLC	Real estate	44,223,710	0.27%
Western RIM Investors 2015-2 LP	Real estate	43,343,730	0.27%
Plastipak Packaging Inc.	Manufacturer	43,028,724	0.26%
		<u>\$ 626,267,804</u>	<u>3.83%</u>

GENERAL OBLIGATION DEBT LIMITATION. . . No general obligation debt limitation is imposed on the City under current State law or the City’s Home Rule Charter (see “THE BONDS - Tax Rate Limitation”).

TABLE 6 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt (“G.O. 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 G.O. Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional G.O. Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping G.O. Debt of the City.

Taxing Jurisdiction	2019/2020	2019/2020	Total	Estimated	City's
	Taxable		G.O.		Overlapping
	Assessed	Tax	Debt	%	G.O. Debt
	Value	Rate	As of 10/31/2019	Applicable	As of 10/31/2019
City of Garland	\$ 16,331,624,830	\$ 0.7696	\$ 330,560,000 ⁽¹⁾	100.00%	\$ 330,560,000
Collin County	149,632,276,578	0.1750	392,565,000	0.02%	78,513
Collin County Community College District	152,697,476,042	0.0812	239,445,000	0.02%	47,889
Dallas County	261,927,801,917	0.2431	151,495,000	5.81%	8,801,860
Dallas County Community College District	269,683,889,444	0.1240	182,800,000	5.81%	10,620,680
Dallas County Hospital District	262,400,022,695	0.2794	640,180,000	5.81%	37,194,458
Dallas County Schools	243,677,733,215	0.0100	37,306,896	5.81%	2,167,531
Dallas Independent School District	128,350,910,821	1.3104	2,676,385,000	0.18%	4,817,493
Garland Independent School District	21,361,636,951	1.3900	554,170,000	69.03%	382,543,551
Mesquite Independent School District	9,271,820,630	1.4500	693,209,767	1.81%	12,547,097
Plano Independent School District	49,142,919,873	1.3374	855,305,000	0.05%	427,653
Richardson Independent School District	25,381,244,132	1.4184	626,379,992	3.40%	21,296,920
Rockwall County	12,684,549,321	0.3250	92,120,000	0.01%	9,212
Rockwall ISD	10,480,654,055	1.3500	515,570,826	0.01%	51,557
Total Overlapping G.O. Debt.....					\$ 811,164,412
Ratio of Overlapping G.O. Debt to Taxable Assessed Valuation.....					4.97%
Per Capita Overlapping G.O. Debt.....					\$ 3,404.06

(1) Excludes the Refunded Obligations, includes the Bonds. Excludes self-supporting debt.

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DEBT INFORMATION

TABLE 7 – BOND DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Debt Service ⁽¹⁾			The Bonds			Less: Self- Supporting Debt Service ⁽²⁾⁽³⁾	NET General Obligation Debt Service	% of Principal Retired
	Principal	Interest	Total D/S	Principal	Interest	Total D/S			
2020	\$ 64,285,000	\$ 12,562,374	\$ 76,847,374	\$ -	\$ 616,455	\$ 616,455	\$ 29,540,776	\$ 47,923,053	
2021	47,570,000	9,340,628	56,910,628	775,000	861,275	1,636,275	9,184,906	49,361,996	
2022	30,915,000	7,847,909	38,762,909	815,000	821,525	1,636,525	5,924,981	34,474,453	
2023	26,935,000	6,577,578	33,512,578	855,000	779,775	1,634,775	4,546,806	30,600,546	
2024	25,285,000	5,413,771	30,698,771	900,000	735,900	1,635,900	3,711,069	28,623,603	60.00%
2025	25,175,000	4,265,945	29,440,945	930,000	704,100	1,634,100	3,517,719	27,557,326	
2026	15,025,000	3,338,231	18,363,231	960,000	670,800	1,630,800	2,872,856	17,121,175	
2027	14,805,000	2,644,369	17,449,369	1,010,000	621,550	1,631,550	2,771,131	16,309,788	
2028	13,545,000	1,996,922	15,541,922	1,065,000	569,675	1,634,675	2,645,431	14,531,166	
2029	8,450,000	1,499,206	9,949,206	1,115,000	515,175	1,630,175	1,993,550	9,585,831	84.83%
2030	5,860,000	1,189,597	7,049,597	1,175,000	457,925	1,632,925	145,063	8,537,459	
2031	5,755,000	965,097	6,720,097	1,085,000	401,425	1,486,425	146,375	8,060,147	
2032	5,535,000	756,141	6,291,141	1,135,000	351,600	1,486,600	147,288	7,630,453	
2033	5,315,000	552,322	5,867,322	1,180,000	305,300	1,485,300	142,975	7,209,647	
2034	4,660,000	376,288	5,036,288	1,225,000	263,325	1,488,325	138,844	6,385,769	94.79%
2035	4,110,000	234,647	4,344,647	1,260,000	226,050	1,486,050	139,881	5,690,816	
2036	1,695,000	139,169	1,834,169	1,300,000	187,650	1,487,650	140,769	3,181,050	
2037	1,450,000	85,097	1,535,097	1,340,000	148,050	1,488,050	47,922	2,975,225	
2038	1,235,000	38,900	1,273,900	1,380,000	107,250	1,487,250	46,400	2,714,750	
2039	565,000	8,475	573,475	1,420,000	65,250	1,485,250	20,300	2,038,425	99.56%
2040	-	-	-	1,465,000	21,975	1,486,975	-	1,486,975	100.00%
	<u>\$ 308,170,000</u>	<u>\$ 59,832,664</u>	<u>\$ 368,002,664</u>	<u>\$ 22,390,000</u>	<u>\$ 9,432,030</u>	<u>\$ 31,822,030</u>	<u>\$ 67,825,042</u>	<u>\$ 331,999,652</u>	

(1) Excludes the refunded portion of Combination Tax & Revenue Certificates of Obligation, Series 2010. Excludes the refunded portion of the Combination Tax & Electric Utility System Revenue Refunding Bonds, Series 2010 which are expected to be refunded with the proceeds of the City's Electric Utility System Revenue Refunding Bonds, New Series 2019A being issued concurrently with the Bonds.

(2) The City currently pays debt service on a portion of its outstanding general obligation debt from other available revenue of the City as set forth in "Table 11 - Computation of Self-Supporting Debt." It is the City's current policy to provide these payments from such revenues; provided this policy is subject to change in the future. In the event payment is not made from such revenues, the City will be required to assess an ad valorem tax sufficient to make such payments. See "Table 11 - Computation of Self-Supporting Debt" for additional information. Includes a portion of the Bonds.

(3) Excludes the refunded portion of Combination Tax & Electric Utility System Revenue Refunding Bonds, Series 2010 which are expected to be refunded with the proceeds of the City's Electric Utility System Revenue Refunding Bonds, New Series 2019A being issued concurrently with the Bonds.

TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION

Debt Service Requirements, Fiscal Year Ending 9/30/2020		\$ 77,463,829 ⁽¹⁾
Interest and Sinking Fund Balance on 9/33/2019 ⁽²⁾	\$5,602,657	
Budgeted Interest and Sinking Fund Tax Collection	60,384,932	
Budgeted Transfers ⁽³⁾	35,611,767	
Estimated Investment Income	265,000	\$ 101,864,356
Estimated Balance, Fiscal Year Ending 9/30/2020		\$ 24,400,527

(1) Includes self-supporting debt service requirements. Excludes Refunded Obligations.

(2) Unaudited.

(3) See "Table 11 – Computation of Self-Supporting Debt"

TABLE 9 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

<u>Authorized Purpose</u>	<u>Date Authorized</u>	<u>Amount Authorized</u>	<u>Heretofore Issued</u>	<u>Unissued Balance</u>
Street Improvements	5/4/1991	\$42,496,500	\$42,414,612	\$81,888
Parks Improvements	5/4/1991	5,144,000	5,118,660	25,340
Public Safety Improvements	5/4/1991	7,226,086	7,199,376	26,710
Various Street Improvements	5/31/1997	67,970,000	66,540,383	1,429,617
Northeast Parkway Street Improvements	5/31/1997	4,240,000	4,240,000	-
Drainage Improvements	5/31/1997	10,570,000	10,502,789	67,211
Library Improvements	5/31/1997	5,890,000	5,877,682	12,318
Parks Improvements	5/31/1997	12,370,000	11,508,606	861,394
Public Safety Improvements	5/31/1997	19,890,000	19,770,561	119,439
Municipal Facility Improvements	5/31/1997	1,710,000	1,521,000	189,000
Street Improvements	5/15/2004	113,370,000	56,930,825	56,439,175
Drainage Improvements	5/15/2004	28,000,000	22,267,077	5,732,923
Park and Recreation Facilities and Improvements	5/15/2004	21,680,000	8,540,987	13,139,013
Library Facilities	5/15/2004	9,400,000	9,386,179	13,821
Public Safety Facilities	5/15/2004	12,950,000	11,890,563	1,059,437
Municipal Improvements	5/15/2004	11,180,000	4,349,584	6,830,416
Economic Development/Land Acquisition	5/15/2004	3,420,000	2,557,207	862,793
Street Improvements	5/4/2019	122,250,000	-	122,250,000
Drainage Improvements	5/4/2019	47,350,000	-	47,350,000
Public Safety Improvements	5/4/2019	51,350,000	-	51,350,000
Parks and Recreation Improvements	5/4/2019	117,750,000	28,909	117,721,091
Library Improvements	5/4/2019	21,000,000	-	21,000,000
Municipal Facilities Improvements	5/4/2019	6,000,000	-	6,000,000
Animal Shelter	5/4/2019	12,000,000	-	12,000,000
Economic Development	5/4/2019	46,000,000	-	46,000,000
Total		<u>\$801,206,586</u>	<u>\$290,645,000</u>	<u>\$510,561,586</u>

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT. . . . The City anticipates the issuance of approximately \$50,000,000 additional long term general obligation debt within the next 18 months after the issuance of the Bonds.

TABLE 10 - OTHER BONDS

As of October 28, 2019 the City had no unfunded debt outstanding.

CAPITAL IMPROVEMENT PROGRAM. . . . The City Council annually adopts a Capital Improvement Program (the "CIP") that consists of projects that involve the construction of infrastructure and major facilities and the acquisition of large equipment. The CIP, which is adopted on a calendar-year basis, details expected resources and planned expenditures over a five-year period, lists projects for each capital improvement fund and provides descriptions of projects and funding sources. The CIP budget differs from the City's operational budget because of its "multi-year" focus, which means that a project can span more than one fiscal year. In approving the CIP, the City Council actually appropriates the funds for the plan year, while approving, in concept, the plan for future years. The CIP is developed for planning purposes and may identify projects that will be deferred or omitted entirely in

future years; only projects for the current fiscal year are included in the City's adopted budget. In addition, as conditions change, new projects may be added that were not identified in the prior year programs.

For 2019, the CIP includes approximately \$279.7 million in total budgeted expenditures for all City capital projects, including general obligation, water, wastewater and electric projects. The total CIP for the five-year period of 2018-2022 includes approximately \$990.8 million of anticipated capital improvement projects. The City Council adopted CIP document is available on the City website at: <http://wwtv.garlandtx.gov>.

GENERAL OBLIGATION COMMERCIAL PAPER PROGRAM. . . Pursuant to an ordinance adopted by the City Council on February 17, 2015, the City authorized a General Obligation Commercial Paper Program pursuant to which the City is authorized to issue commercial paper notes (the "2015 Notes") for any Authorized Purposes described in Table 9 above, with a total available authorization in the principal amount of \$50,000,000.

All of the currently outstanding \$23,500,000 2015 Notes will be refunded with proceeds of the Bonds.

The 2015 Notes may be issued for a period of not less than 7 days and not to exceed 270 days and will bear interest upon the specific terms of the 2015 Notes, but not to exceed 15% per annum. The principal of and interest on the commercial paper notes is payable from drawings on a direct pay letter of credit issued by Citibank, N.A., and on March 15, 2019, that letter of credit was extended from the original expiration date of March 29, 2019 to March 29, 2021. The 2015 Notes are initially offered by the commercial paper dealer, and proceeds therefrom are used to finance various capital and public improvement projects authorized by the voters. The general types of these projects are set forth under "Table 9- Authorized but Unissued General Obligation Bonds."

2019 BOND PROGRAM . . . On May 4, 2019, voters approved a City of Garland Bond Program that totals \$423,700,000 in new authority and contains eight separate propositions for various improvements:

- PROPOSITION A: Streets \$122,250,000
- PROPOSITION B: Public Safety \$51,350,000
- PROPOSITION C: Storm Drainage \$47,350,000
- PROPOSITION D: Parks and Recreation \$117,750,000
- PROPOSITION E: Libraries \$21,000,000
- PROPOSITION F: Economic Development \$46,000,000
- PROPOSITION G: Municipal Facilities \$6,000,000
- PROPOSITION H: Animal Shelter \$12,000,000

The projects included in the 2019 bond election were considered by a resident-led Bond Study Committee. After careful deliberation and input from Garland residents, City Board and Commission members and City staff, the Committee presented their recommendations to the City Council in December 2018. After review and additional consideration, the City Council passed an Ordinance in February 2019 calling for a bond election in May 2019.

The current City Council has indicated the desire for an immediate start and rapid implementation of voter-approved bond-funded projects with completion achieved within seven to 10 years. In order to meet this schedule, the Council has approved a tax rate increase of approximately 6.5 cents. The 6.5 cent increase is projected to cover the 2019 Bond Program and remaining projects from the 2004 Bond Program. In addition, the City has hired an outside project management firm to assist with ensuring projects are completed within 7 to 10 years.

See table 9 for additional information.

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TABLE 11 – COMPUTATION OF SELF-SUPPORTING DEBT

	Electric	Water and Sewer	Customer Service	Environmental Waste Service	Fleet Services	Information Technology & Communications	Warehouse	Stormwater	Downtown TIF
Cash and Cash Equivalents Beginning of FY 2018 ⁽¹⁾	\$ 24,760,559	\$ 9,158,129	\$ 7,669,067	\$ 433,421	\$ 374,421	\$ 3,286,320	\$ -	\$ 365,011	\$ 281,974
Revenues FY 2018 ⁽²⁾	291,082,253	121,117,757	17,212,916	20,062,255	8,839,200	24,999,455	921,922	4,349,910	740,416
Operating Expenses FY 2018 ⁽³⁾	(222,169,714)	(75,803,079)	(15,506,660)	(15,576,684)	(8,438,287)	(16,075,443)	(981,138)	(3,775,975)	(179,874)
Net Available for Debt Service	<u>\$ 93,673,098</u>	<u>\$ 54,472,807</u>	<u>\$ 9,375,323</u>	<u>\$ 4,918,992</u>	<u>\$ 775,334</u>	<u>\$ 12,210,332</u>	<u>\$ (59,216)</u>	<u>\$ 938,946</u>	<u>\$ 842,516</u>
Revenue Bonds Debt Service FY 2020	\$ 33,891,711 ⁽⁴⁾	\$ 25,193,536 ⁽⁵⁾	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Available for Self-Supporting D/S	<u>\$ 59,781,387</u>	<u>\$ 29,279,271</u>	<u>\$ 9,375,323</u>	<u>\$ 4,918,992</u>	<u>\$ 775,334</u>	<u>\$ 12,210,332</u>	<u>\$ (59,216)</u>	<u>\$ 938,946</u>	<u>\$ 842,516</u>
Self-Supported GO Debt Service FY 2020	\$ 20,704,750 ⁽⁶⁾	\$ 2,330,875	\$ 1,958,050	\$ 3,068,859	\$ 134,394	\$ 549,685	\$ 5,375	\$ 486,839	\$ 301,950

The amount of self-supporting debt for FY 2020 payable from available revenues of the City is set forth herein. It is the City's current policy to provide these payments from such revenues; provided this policy is subject to change in the future. In the event payment is not made from such revenues, the City will be required to assess an ad valorem tax sufficient to make such payments.

- (1) Audited unrestricted cash, rate mitigation funds, and available for debt retirement (not including revenue bonds' reserve funds).
- (2) Includes audited investment income and cash related non-operating revenues. Excludes other contributions.
- (3) Excludes audited non-cash operating expenses.
- (4) Includes Electric Utility System Revenue Refunding Bonds, New Series 2019A scheduled to close on December 3, 2019.
- (5) Includes Water and Sewer System Revenue Refunding Bonds, New Series 2019 scheduled to close on December 3, 2019.
- (6) Excludes the refunded portion of the Combination Tax and Electric Utility System Revenue Refunding Bonds, Series 2010.

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PENSION FUND

Plan Description

The City participates as one of 883 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.org.

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 credit with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one or seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

At 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 credit for service since the plan began are 200% of the employee's accumulated contributions. In addition, the City granted another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his/her salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

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

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Years required to vesting	5
Service retirement eligibility	age 60 with five or more years of service or with 20 years of service regardless of age

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1,366
Inactive employees entitled to but not yet receiving benefits	608
Active employees	<u>2,005</u>
	3,979

Contributions

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

Employees of the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 11.11% and 11.26% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for fiscal year 2018, were \$16,665,242, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2017 actuarial valuation was determined using the following actuarial assumptions:

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

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

Actuarial assumptions used in the December 31, 2017, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5 %	4.55 %
International Equity	17.5	6.35
Core Fixed Income	10.0	1.00
Non-Core Fixed Income	20.0	3.90
Real Return	10.0	3.80
Real Estate	10.0	4.50
Absolute Return	10.0	3.75
Private Equity	5.0	7.75
Total	<u>100.0 %</u>	

Discount Rate

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

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Changes in the Net Pension Asset

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) – (b)
Balance at December 31, 2014	\$906,262,805	\$848,810,046	\$57,452,759
Changes for the year:			
Service Cost	22,270,032		22,270,032
Interest (on the total pension liability)	60,506,232		60,506,232
Difference between expected and actual experience	928,620		928,620
Change in assumptions	-		-
Benefit payments, including refunds of employee contributions	(42,018,404)	(42,018,404)	-
Contributions-employer		15,640,715	(15,640,715)
Contributions – employee		10,035,625	(10,035,625)
Net investment income		117,621,308	(117,621,308)
Administrative expense		(609,672)	609,672
Other		(30,898)	30,898
Net changes	41,686,480	100,638,674	(58,952,194)
Balance at December 31, 2016	\$947,949,285	\$949,448,720	\$ (1,449,435)

Sensitivity of the net pension liability to changes in the discount rate.

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 5.75%	Current Single Rate Assumption 6.75%	1 % Increase 7.75%
\$ 114,618,370	\$ (1,499,435)	\$ (98,885,496)

Pensions 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.org.

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

For the year ended September 30, 2018, the City recognized pension expense of \$18,775,910.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 804,115	\$ (3,630,607)
Difference in assumption changes	6,956,291	-
Difference between projected and actual investment earnings on pension plan investments	-	(23,588,768)
Employer contributions subsequent to the measurement date	12,622,974	-
	\$ 20,383,380	\$ (27,219,375)

Deferred outflows of resources of \$12,622,974 related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows or resources related to pensions will be recognized in pension expense as follows:

Year ended September 30,	
2019	\$ 2,689,380
2020	873,520
2021	(11,179,575)
2022	(11,881,429)
2023	39,135
Total	<u>\$ (19,458,969)</u>

OTHER POST EMPLOYMENT BENEFITS. . . In addition to providing benefits through the TMRS, the City has opted to provide eligible retired employees with the following post-employment benefits:

Plan Description

The City makes available health care benefits to all employees who work for the City of Garland a minimum of five years, meet the Texas Municipal Retirement System (TMRS) criteria listed on page 70, and elect coverage at the time of retirement and maintain continuous, uninterrupted coverage. Benefit provisions are established by management and funding is approved by City Council annually, during the budget process.

In 2008, the City established an irrevocable trust fund in an effort to begin funding the actuarial determined OPEB unfunded liability and to ensure that funding is available in the future for retiree medical benefits. In 2018, the City Council approved a transfer of \$1,250,000 to the trust, and a long-term funding strategy was implemented to increase the annual contribution to this trust with a goal of fully funding the annual OPEB obligation after ten years.

The OPEB trust investments are held in the Public Agencies Retirement Services (PARS) Post-retirement Health Care Plan Trust by its trustee, US Bank. US Bank has delegated investment management responsibilities to HighMark Capital Management, Inc. (Investment Manager), a SEC- registered investment advisor. The Trust investment guideline mandates a diversified portfolio designed to generate long-term returns that, when combined with contributions, will result in sufficient assets to pay future obligation associated with the retiree health plan.

Benefits Provided

The City of Garland provides insurance to eligible pre-65 retirees, their spouses and dependents through the City’s self-insured group health plan. Post-65 retirees are offered a fully insured Medicare Supplement Plan through Hartford, who assumes all claims risk liability on this group of retirees. The City makes contributions towards retiree health care benefits. However, the City reduces its liability and risk by capping the annual increase to the City contribution to a maximum of 3% per year. For FY2018, the monthly City contribution per participant for the retiree group as a whole was \$459.

As of December 31, 2017 biennial actuarial valuation, the Plan’s membership consisted of the following:

<u>Number of plan members</u>	<u>Medical</u>
Retirees and dependents currently receiving benefits	310
Inactive members entitled to benefits, but not yet receiving them	441
Active members	<u>1,871</u>
Total	<u>2,622</u>

Contributions and Funding Policy

The City has the authority to establish and amend the Plan contributions. The City makes an annual contribution to the Trust fund; the funding is established and approved by City Council as part of the City budget process. For the year ended September 30, 2018, the City’s average contribution rate was 3.38 percent of the covered-employee payroll. Monthly retiree premiums are utilized to fund current medical claims and are based on the benefit election of the Plan member.

Net OPEB Liability

The City’s net OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

Actuarial Valuation Date	12/31/2017
Actuarial Cost Method	Entry Age Normal
Asset valuation method	Market value
Inflation	2.50%
Projected salary increase	3.00%
Discount rate	4.14%
Healthcare cost trend rates	All years capped at 3.0%
Mortality	Combined RP-2014 Dynamic table projected using MP-2017 representative rates per thousand for the RP-2014 mortality table

Rate of Return

The long-term expected rate of return on OPEB plan investments will be managed on a total return basis which takes into consideration both investment income and capital appreciation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Large Cap Core	26.50 %	6.70 %
Mid Cap Core	5.00	7.00
Small Cap Core	7.50	7.90
Real Estate	1.75	5.70
International	6.00	7.30
Emerging Markets	3.25	9.70
Short Term Bond	10.00	3.80
Intermediate Term Bond	33.50	4.50
High Yield	1.50	6.00
Cash	5.00	2.10
Total	100.00 %	

The long-term expected rate of return 6.75%

Discount rate

The discount rate used to measure the Total OPEB Liability was 4.14%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the OPEB plan's Fiduciary Net Position was projected to be available to make all projected future benefits payments to current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all period of projected benefit payments to determine the total OPEB liability.

The discount rate for the 12/31/2017 measurement was 4.14% which caused an actuarial gain.

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Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) – (b)
Balance at December 31, 2016	\$70,652,262	\$3,767,364	\$ 66,884,898
Changes for the year:			
Service Cost	2,260,181		2,260,181
Interest (on the total OPEB liability)	3,284,435		3,284,435
Difference between expected and actual experience	(1,303,593)		(1,303,593)
Change in assumptions	7,017,755		7,017,755
Benefit payments, including refunds of employee contributions	(3,529,580)	(3,529,580)	-
Contributions-employer		4,779,579	(4,779,579)
Net investment income		527,289	(527,289)
Administrative expense		(21,120)	21,120
Net changes	7,729,198	1,756,168	5,973,030
Balance at December 31, 2017	\$ 78,381,460	\$5,523,532	\$ 72,857,928

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the City, calculated using the discount rate of 4.14%, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.14%) or 1-percentage-point higher (5.14%) than the current rate:

1% Decrease 3.14%	Current Single Rate Assumption 4.14%	1 % Increase 5.14%
\$ 87,187,486	\$ 72,857,928	\$ 61,892,285

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the City, calculated using the discount rate of 4.14%, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rate

1% Decrease 2.0%	Current Single Rate Assumption 3.0%	1 % Increase 4.0%
\$ 62,019,181	\$ 72,857,928	\$ 86,762,734

OPEB Plan Fiduciary Net Position

The Plan is a single-employer plan and does not issue a publicly available financial report.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflow of Resources Related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$6,502,862.

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At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ -	\$ (1,009,564)
Difference in assumption changes	5,434,885	-
Difference between projected and actual investment earnings on pension plan investments	-	(196,694)
Employer contributions subsequent to the measurement date	<u>2,792,726</u>	<u>-</u>
	\$ 8,227,611	\$ (1,206,258)

Deferred outflows of resources of \$2,792,726 related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows or resources related to pensions will be recognized in OPEB expense as follows:

Year ended September 30,

2019	\$ 1,239,668
2020	1,239,668
2021	1,239,668
2022	<u>509,623</u>
Total	<u>\$ 4,228,627</u>

SUPPLEMENTAL DEATH BENEFITS PLAN (SDBF)

Texas Municipal Retirement System (TMRS) administers a defined benefit group-term life insurance plan known as Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members and retirees. 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). The death benefit for retirees is considered a other postemployment benefit (OPEB) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (pay as you go plan). The retiree portion of the SDBF is considered to be a single-employer, defined benefit OPEB plan.

Detail information about the SDBF OPEB plan is available in a separately-issued TMRS financial report. That report may be obtained on the internet at www.tmrs.com.

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 employee's entire careers. The SDBF contribution rate for retirees is .04%.

As of December 31, 2017, membership in the plan consisted of the following:

Inactive employees currently receiving benefits	1,061
Inactive members entitled to benefits, but not yet receiving them	199
Active members	<u>2,005</u>
Total	<u>3,265</u>

The City's OPEB liability is measured as of December 31, 2017, and the total OPEB liability was determined by an actuarial valuation as of December 31, 2017.

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Actuarial Assumptions

Inflation	2.5%
Salary increases	3.5% to 10.5% including inflation
Discount rate	3.31%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates-service retirees	RP 2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates-disabled retirees	RP 2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to a 3% floor.

Discount rate: For plans that do not have formal assets, the discount rate should equal the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of measurement date. The municipal bond rate is 3.31% (based on the daily rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA index").

Changes in Total OPEB Liability

Beginning at December 31, 2016	\$ 6,225,775
Service Cost	214,962
Interest on the total OPEB liability	238,314
Change in assumptions	542,752
Benefit payments	<u>(57,323)</u>
Net change in total OPEB liability	<u>938,705</u>
Ending at December 31, 2017	<u>\$ 7,164,480</u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the Total OPEB liability of the City, calculated using the discount rate of 3.31%, as well as what the City's Total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current rate:

1% Decrease	Current Discount Rate Assumption	1 % Increase
<u>2.31%</u>	<u>3.31%</u>	<u>4.31%</u>
\$ 8,548,658	\$ 7,164,480	\$ 6,077,217

OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$540,395.

At September 30, 2018, the City reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>
Difference in assumption changes	\$ 455,633
Employer contributions subsequent to the measurement date	<u>45,653</u>
	\$ 501,286

Deferred outflows of resources of \$45,653 related to OPEB resulting from retiree contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows or resources related to pensions will be recognized in OPEB expense as follows:

Year ended	
September 30,	
2019	\$ 87,119
2020	87,119
2021	87,119
2022	87,119
2023	87,119
Thereafter	<u>20,038</u>
Total	<u>\$ 455,633</u>

SELF INSURANCE

Self-insurance for general and auto liability exposure and workers' compensation is maintained in the Self-Insurance Fund of the Internal Service Fund. A private insurance company administers workers' compensation claims and losses for the City. Self-insurance premiums of \$5,517,229 were collected from funds that participate in these. Claims settlement and loss expenses are accrued in the Self-Insurance Fund for the estimated settlement value of claims reported and incurred but not reported arising from incidents during the period. A liability, insurance claims payable, has been established. The reported liability includes actuarially determined present value projected losses for general, auto, and workers' compensation exposure. In determining projected losses, coverages with material incurred losses were compared to expected industry loss levels for prior periods. Based on this comparison, an experience modifier was selected and applied to current indicated industry premiums per exposure unit to obtain expected losses as of September 30, 2018, at the selected per occurrence limits. Based on a current independent actuarial analysis completed in December 2018 claims payable as of September 30, 2018 was estimated at \$6,500,950.

Long-Term Disability (LTD) claims are paid from the LTD Insurance Fund, which is funded with City and employee contributions. A private company administers the long-term disability claims and losses for the City. Based on a current independent actuarial analysis, an actuarially determined liability of \$3,112,604 has been established for projected future claims.

Group medical benefits are paid from the Group Health Fund, which has an annually negotiated stop loss provision. Revenues are recognized from payroll deductions for employee dependent coverage and from City contributions for employee coverage. At September 30, 2018 a short-term liability of \$2,223,841 was recognized for open claims and claims incurred but not reported. The claims incurred but not reported are calculated based on a monthly average for claims paid during the current fiscal year.

There were no significant reductions in insurance coverage in the current year from coverage in the prior year, nor have there been any settlements that have exceeded insurance coverage for each of the past three fiscal years.

Changes in the self-insurance, long-term disability and group health insurance claims payable in fiscal years 2017 and 2018 were:

Internal Service Fund	Beginning of Fiscal Year Liability	Current Year Claims	Changes in Estimates	Claim Payments	Balance at Fiscal Year – End	Current Portion
Self-Insurance – 2017	\$ 7,262,640	\$ 760,911	\$ -	\$ 760,911	7,262,640	2,774,500
Self-Insurance – 2018	7,262,640	4,052,123	(761,690)	4,052,123	6,500,950	2,774,500
Long-Term Disability – 2017	2,875,700	440,182	-	440,182	2,875,700	490,000
Long-Term Disability – 2018	2,875,700	175,051	236,904	175,051	3,112,604	490,000
Group Health – 2017	1,881,834	21,006,586	(217,946)	21,006,586	1,663,888	1,663,888
Group Health – 2018	1,663,888	21,174,363	559,953	21,174,363	2,223,841	2,223,841

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FINANCIAL INFORMATION

TABLE 12 - GENERAL FUND REVENUES AND EXPENDITURES HISTORY ⁽¹⁾

	Fiscal Year Ended September 30,				
	2018	2017	2016	2015	2014
<u>Revenues:</u>					
Taxes	\$ 83,444,868	\$ 78,643,331	\$ 74,251,245	\$ 67,837,856	\$ 64,744,909
Franchise Fees	8,912,728	8,746,777	8,452,280	8,832,022	9,091,491
Service Charges	27,082,445	26,037,157	26,789,030	22,040,585	20,791,739
Licenses and Permits	4,488,052	5,201,460	4,906,892	3,860,441	3,781,703
Interest Revenue	669,993	330,241	231,966	289,176	259,387
Intergovernmental	1,851,230	803,933	820,599	722,230	692,291
Charges for Services	9,819,344	9,426,444	8,975,685	8,576,934	8,002,858
Fines and Forfeitures	7,234,696	8,586,513	7,521,426	6,608,238	6,730,988
Rents and Concessions	771,769	745,942	748,504	829,410	833,456
Total Revenues	<u>\$ 144,275,125</u>	<u>\$ 138,521,798</u>	<u>\$ 132,697,627</u>	<u>\$ 119,596,892</u>	<u>\$ 114,928,822</u>
<u>Expenditures:</u>					
General Government	\$ 11,750,399	\$ 11,396,295	\$ 11,371,688	\$ 10,196,396	\$ 9,763,970
Public Safety	95,537,161	89,743,140	87,878,926	81,633,191	79,341,146
Public Works	27,150,168	22,329,429	22,529,626	20,656,938	19,617,640
Culture and Recreation	16,471,742	15,083,685	14,366,431	13,573,292	13,371,187
Public Health	3,833,685	3,801,719	3,885,801	3,763,652	3,606,072
Non-departmental	27,873,387	24,798,432	26,805,888	23,629,265	20,992,758
Total Expenditures	<u>\$ 182,616,542</u>	<u>\$ 167,152,700</u>	<u>\$ 166,838,360</u>	<u>\$ 153,452,734</u>	<u>\$ 146,692,773</u>
Excess (deficiency) of Revenues Over Expenditures	<u>\$ (38,341,417)</u>	<u>\$ (28,630,902)</u>	<u>\$ (34,140,733)</u>	<u>\$ (33,855,842)</u>	<u>\$ (31,763,951)</u>
Other Financing Sources (Uses):					
Sale of Capital Assets	\$ 23,888	\$ 312,911	\$ 70,771	\$ 167,619	\$ 137,275
Operating Transfers - Net	38,052,441	36,467,410	35,374,186	33,703,336	33,092,475
Excess (Deficiency) of Revenues Over Expenditures and Other Sources (Uses)	<u>\$ (265,088)</u>	<u>\$ 8,149,419</u>	<u>\$ 1,304,224</u>	<u>\$ 15,113</u>	<u>\$ 1,465,799</u>
Beginning Fund Balance	<u>35,198,425</u>	<u>27,049,006</u>	<u>25,744,782</u>	<u>25,729,669</u>	<u>24,263,870</u>
Ending Fund Balance	<u><u>\$ 34,933,337</u></u>	<u><u>\$ 35,198,425</u></u>	<u><u>\$ 27,049,006</u></u>	<u><u>\$ 25,744,782</u></u>	<u><u>\$ 25,729,669</u></u>

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TABLE 12A - CHANGES IN NET POSITION – ENTITY WIDE

	For Fiscal Year Ended September 30,				
	2018	2017	2016	2015	2014
Revenues:					
Program Revenues:					
Charges for Services	\$ 486,456,246	\$ 465,808,779	\$ 462,816,924	\$ 508,477,260	\$ 534,069,496
Operation Grants and Contributions	15,409,934	17,156,144	15,090,766	14,640,650	14,290,332
Capital Grants and Contributions	14,657,978	16,006,622	10,911,616	4,374,021	1,513,276
General Revenues:					
Property Taxes	95,795,752	87,329,443	79,069,419	74,345,310	71,507,322
Sales Taxes	30,129,008	29,894,875	30,234,776	26,497,069	24,667,765
Other Taxes	10,845,365	10,650,995	10,295,965	10,360,759	10,421,218
Unrestricted Interest Earnings	5,529,408	3,078,959	2,585,177	2,644,942	2,161,264
Miscellaneous	2,134,540	2,002,037	2,841,320	4,490,248	2,207,770
Total Revenues	\$ 660,958,231	\$ 631,927,854	\$ 613,845,963	\$ 645,830,259	\$ 660,838,443
Expenses:					
General Government	\$ 34,425,497	\$ 33,421,800	\$ 32,857,828	\$ 28,672,583	\$ 27,639,946
Public Safety	108,420,934	107,419,896	103,855,466	93,438,294	91,105,170
Public Works	42,764,067	39,356,985	46,703,808	42,473,055	41,893,889
Culture and Recreation	24,323,627	24,743,188	24,405,765	21,780,835	20,820,273
Public Health	4,405,451	4,682,394	4,819,386	4,401,399	4,105,273
Interest and Fiscal Charges	7,339,076	8,391,567	8,833,481	8,323,617	9,696,538
Electric	259,269,873	282,989,503	281,386,514	319,583,367	344,969,100
Water	64,111,798	58,299,626	54,403,015	48,965,136	46,952,415
Sewer	38,352,152	37,321,258	36,662,146	35,609,533	36,080,645
Golf	4,583,422	5,080,114	4,926,096	4,808,720	4,738,094
Heliport	5,315	5,344	5,350	5,351	5,329
Storm Water Management	4,292,213	3,842,023	3,878,831	3,949,180	3,996,717
Parks Performance	1,248,760	1,259,287	1,233,076	1,113,223	1,031,470
Sanitation	18,485,025	17,841,828	17,786,836	17,085,912	17,415,020
Total Expenses	\$ 612,027,210	\$ 624,654,813	\$ 621,757,598	\$ 630,210,205	\$ 650,449,879
Increase in Net Position Before Transfers	\$ 48,931,021	\$ 7,273,041	\$ (7,911,635)	\$ 15,620,054	\$ 10,388,564
Transfers	-	-	-	-	-
Increase in Net Position	48,931,021	7,273,041	(7,911,635)	15,620,054	10,388,564
Net Position - Beginning	843,154,282	835,881,241	843,792,876	828,172,822 ⁽¹⁾	799,208,351 ⁽²⁾
Cummulative effect of change in accounting principal	(47,479,959)	-	-	-	-
Net Position beginning - restated	795,674,323				
Net Position - Ending	\$ 844,605,344	\$ 843,154,282	\$ 835,881,241	\$ 843,792,876	\$ 809,596,915

(1) Restated.

(2) Cumulative effect of change in accounting principle.

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TABLE 13 - MUNICIPAL SALES TAX HISTORY

The following table sets forth the municipal sales tax collections for the last five fiscal years. The municipal sales tax is not pledged to the payment of the Bonds.

Fiscal Year Ended 9/30	Total Collected ⁽¹⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita ⁽²⁾
2015	\$ 26,497,069	35.90%	\$ 0.2536	\$ 113.62
2016	30,234,776	38.46%	0.2699	128.18
2017	29,894,875	34.45%	0.2412	126.25
2018	30,129,008	31.61%	0.2209	126.44
2019	28,308,748 ⁽³⁾	26.81%	0.1875	118.11

(1) Source: City Staff

(2) Source: Estimates of North Central Texas Council of Governments and the City Planning Department.

(3) As of August 31, 2019

FINANCIAL POLICIES

Basis of Accounting . . . All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used by all governmental fund types and agency funds.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity is segregated into investments in capital assets, net of related debt, and restricted and unrestricted net assets. Proprietary fund-type operating statements represent increases and decreases in net total assets. Proprietary fund types are accounted for using the accrual basis of accounting.

General Fund Balance . . . It is the City’s policy to maintain a balance which is greater than 30 days of adjusted working capital, less debt service, in immediately accessible cash and investments. If the fund balance is drawn down in any one year, the fund balance will be restored in the following year.

Budgetary Procedures . . . It is the City’s policy that a multi-year financial forecast shall be prepared annually, to be issued as a planning tool in developing the following year’s operating budget. The budget is developed by the City staff and presented to the City Council for consideration.

INVESTMENTS

INVESTMENTS

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

LEGAL INVESTMENTS . . . Available City funds are invested as authorized by Texas law and in accordance with investment policies approved by the City Council. Both State law and the City’s investment policies are subject to change. Under State law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025; or (ii) a depository institution with a main office or branch office in this State that the investing entity selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or

more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (9) certificates of deposit and share certificates (i) issued by a depository institution that has its main office or a branch office in the State of Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Insurance Fund or its successor, or are secured as to principal by obligations described in the clauses (1) through (8) 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 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 that is selected by the City; (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, 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; (10) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) 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 (8) 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 (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less, (12) 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, (13) 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, (14) a no-load money market mutual fund registered with and regulated by the Securities and Exchange Commission that provides the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and complies with federal Securities and Exchange Commission Rule 2a-7, and (15) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAA 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 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 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 State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the 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 State law, City investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest during the reporting period each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

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

TABLE 14 - CURRENT INVESTMENTS

As of September 30, 2019 the following percentages of the City’s investable funds were invested in the following categories of investments.

Type of Investments	Book Value	
	Amount	Percent
Federal Agency Coupon Securities	264,516,931	51.61%
Certificates of Deposit	6,080,200	1.19%
Investment Pool	241,956,664	47.21%
	<u>\$ 512,553,795</u>	<u>100.00%</u>

TAX MATTERS

TAX EXEMPTION . . . The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the “Code”), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. A form of Bond Counsel’s opinion is reproduced as Appendix C. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

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

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

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

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

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

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

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

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Ordinance, the City has made the following agreement for the benefit of the registered and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the “MSRB”).

ANNUAL REPORTS. . . The City will provide annually to the MSRB (1) within six months after the end of each fiscal year ending in or after 2019, financial information and operating data with respect to the City of the general type of information contained in Tables 1 through 5 and 7 through 14 and (2) within twelve months after the end of each fiscal year ending in or after 2019, audited financial statements of the City. Any financial statements so provided shall be prepared in accordance with the accounting principles described in 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. If audited financial statements are not available within 12 months after the end of any fiscal year, the City will provide unaudited financial statements by the required time, and audited financial statements when and if such audited financial statements become available.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB’s Internet Web site or filed with the Securities and Exchange Commission (the “SEC”), as permitted by SEC Rule 15c2-12 (the “Rule”).

The City’s current fiscal year end is September 30. Accordingly, the City must provide updated information included in the above-referenced tables by March 31 in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by September 30 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the City otherwise would be required to provide financial information and operating data.

NOTICE OF CERTAIN EVENTS. . . The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, (15) incurrence of a debt obligation or derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation of the City, or a guarantee of any such debt obligation or derivative instrument, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the City, any of which reflect financial difficulties, if material. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under “Annual Reports”.

For these purposes, (a) any event described in the immediately preceding paragraph 12 is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City and (b) the City intends the words used in the immediately preceding paragraphs 15 and 16 and the definition of financial obligation in this Section to have the meanings ascribed to them in SEC Release No. 34-83885, dated August 20, 2018.

AVAILABILITY OF INFORMATION. . . In connection with its continuing disclosure agreement entered into with respect to the Bonds, the City will file all required information and documentation with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB at www.emma.msrb.org.

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

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the registered and beneficial owners of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the City so amends the continuing disclosure 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. . . Except as described below, during the last five years the City believes it has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

“Table B-5 - Electric System Revenue Supported General Obligation Debt Service Requirements” was inadvertently omitted when the City filed its financial information and operating data for the City’s Fiscal Year Ended September 30, 2015. Table B-5 was required to be filed in connection with the City’s continuing disclosure agreement for the City’s Combination Tax and Electric Utility System Surplus Revenue Refunding Bonds, Series 2015. Table B-5 has now been filed along with a Material Event Notice, dated November 8, 2016, for the late filing and the City has procedures in place to ensure the timely filing of such table in the future.

The ratings on municipal bond insurers have been downgraded with frequency at various times in recent years. Information about the downgrades of municipal bond insurers has been publicly reported. During the previous five years, the City has filed notices of downgrades of municipal bond insurers that insured the City’s outstanding obligations, but no assurances can be made that all the filings have been made or made in a timely manner.

OTHER INFORMATION

RATINGS

The Bonds have been rated “AA+” with a stable outlook by S&P Global Ratings, a division of S&P Global Inc. (“S&P”) and “AAA” with a stable outlook by Fitch Ratings (“Fitch”). An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

LITIGATION

City staff believes there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may

be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

The City made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes.

LEGAL OPINION

The City will furnish to the Initial Purchaser a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bond and to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein. The customary closing papers, including a certificate of the City as described under "OTHER INFORMATION - Certification of the Official Statement" will also be furnished to the Initial Purchaser. Though it represents the Financial Advisor and investment banking firms such as the Initial Purchaser from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the City in connection with the issuance of the Bonds. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement to verify that such description conforms to the provisions of the Bond Ordinance. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the City by Bracewell LLP, Dallas, Texas, Counsel as disclosure Counsel to the City.

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

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from City records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and 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 Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Hilltop Securities Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible

impact of any present, pending or future actions taken by any legislative or judicial bodies. In the normal course of business, the Financial Advisor may from time to time sell investment securities to the City for the investment of certificate proceeds or other funds of the City upon the request of the City.

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

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Samuel Klein and Company will deliver to the City, on or before the Settlement Date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Obligations and (b) mathematical computations of yield.

Samuel Klein and Company relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the City. In addition, Samuel Klein and Company has relied on any information provided to it by the City retained advisors, consultants or legal counsel.

INITIAL PURCHASER OF THE BONDS

After requesting competitive bids for the Bonds, the City accepted the bid of BOK Financial Securities, Inc. (the "Initial Purchaser of the Bonds") to purchase the Bonds at the interest rates shown on page 2 of the Official Statement at a price of 111.741333% of par. The Initial Purchaser of the Bonds can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Initial Purchaser of the Bonds. The City has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser of the Bonds.

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.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Bonds, the City will furnish a certificate to the Initial Purchaser of the Bonds, executed by a proper officer, acting in their official capacity, to the effect that to the best of his or her knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such 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 the 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 such 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.

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

/s/ Scott Lemay
Mayor
City of Garland, Texas

ATTEST:

/s/ Eloyce Rene Dowl
City Secretary
City of Garland, Texas

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SCHEDULE OF REFUNDED OBLIGATIONS

Combination Tax and Revenue Certificates of Obligation, Series 2010

Original Dated Date	Original Maturity Date	Interest Rates	Amount	Call Date
4/15/2010	2/15/2021 ⁽¹⁾	4.000%	\$ 110,000.00	2/15/2020
	2/15/2022 ⁽¹⁾	4.000%	115,000.00	2/15/2020
	2/15/2023 ⁽²⁾	4.125%	120,000.00	2/15/2020
	2/15/2024 ⁽²⁾	4.125%	125,000.00	2/15/2020
	2/15/2025 ⁽³⁾	4.250%	130,000.00	2/15/2020
	2/15/2026 ⁽³⁾	4.250%	135,000.00	2/15/2020
	2/15/2027 ⁽⁴⁾	4.375%	140,000.00	2/15/2020
	2/15/2028 ⁽⁴⁾	4.375%	150,000.00	2/15/2020
	2/15/2029 ⁽⁵⁾	4.500%	155,000.00	2/15/2020
	2/15/2030 ⁽⁵⁾	4.500%	165,000.00	2/15/2020
			\$ 1,345,000.00	

(1) Reflects a term bond with a February 15, 2022 maturity date.

(2) Reflects a term bond with a February 15, 2024 maturity date.

(3) Reflects a term bond with a February 15, 2026 maturity date.

(4) Reflects a term bond with a February 15, 2028 maturity date.

(5) Reflects a term bond with a February 15, 2030 maturity date.

The Refunded Obligations will be redeemed on February 15, 2020 at a price of par plus accrued interest to the redemption date.

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

LOCATION AND SIZE

The City of Garland (the “City”) is located in Dallas, Collin and Rockwall Counties approximately 14 miles northeast of downtown Dallas. The City encompasses approximately 57 square miles, of which approximately 90% of the developable area is fully developed. The City abuts Dallas and the suburban cities of Richardson and Mesquite on its western and southern boundaries, while on its northern, eastern and a portion of its southern boundaries, it abuts the cities of Rowlett, Sachse and Sunnyvale, as well as several miles of shoreline along Lake Ray Hubbard.

The City is well balanced between residential, commercial and industrial development. The population increased 122%, from 81,437 in 1970 to 180,650 according to the 1990 Census, making Garland the second largest City in Dallas County. The 2000 Census population of the City was 215,768. The 2020 estimated population of the City is 242,504.

Garland is served directly by two railroads, with reciprocal switching agreements with other railroads in the area, and is also served by a national bus line and has park-and-ride bus service to downtown Dallas via Dallas Area Rapid Transit. Commercial air service is afforded by the convenient location of the Dallas-Fort Worth International Airport, Dallas' Love Field and the Garland Heliplex which opened in November of 1989.

Interstate 635 is an eight lane expressway that encircles the outer limits of Dallas, passing through the southwest section of Garland. The President George Bush Turnpike connects the southeastern area of Garland along the Interstate 30 corridor with the northwestern area of Garland. Interstate 30 travels from Garland’s eastern boundary at Lake Ray Hubbard along the southern portion of the city. These highways provide convenient automotive access to the Dallas-Fort Worth metropolitan area.

INDUSTRY AND BUSINESS

Garland is known for its economic and industrial base, which consists of more than 5,000 businesses including approximately 300 manufacturing companies. The City has been noted as a manufacturing community since the 1940s, and numerous Fortune 500 corporations along with many others have selected Garland as home base for their strategic operations. The Ten Largest businesses in the City are:

<u>Name of Firm</u>	<u>Type of Business</u>	<u>Approximate Number of Employees</u>
Kraft Foods	Food manufacturer	796
US Food Service	Food manufacturer	520
Atlas Copco	Mining/Drilling equipment manufacturer	460
SilverLine Window	Window manufacturer	425
Hatco (Resistol)	Apparel manufacturer	390
L3 Communications	Military product manufacturer	350
Arrow Fabricated Tubing	Fabricated metals manufacturer	340
Valspar	Paint manufacturer	300
KARLEE	Sheet metal component manufacturer	290
General Dynamics	Precision metal fabrication	275

The industrial sector continues to be strong and active in Garland. The 90+ acre former Raytheon campus has been completely redeveloped and revitalized, including approximately 800,000 square feet of new Class A commercial flex space in three separate facilities, all of which are now occupied with new and expanded Garland companies. Canadian window manufacturer Quest Window Systems opened the company’s first U.S. manufacturing and distribution facility with more than \$12 million invested in machinery and equipment and will create more than 320 full-time jobs. Nutribiotech USA, a Garland-based nutritional supplement manufacturer, will expand its existing research and development and production facilities from 60,000 square feet to 685,000 square feet with a \$100+ million capital investment. Plastipak Packaging and Kirchoff Automotive, both existing Garland manufacturing companies, will make significant investments in the acquisition and installation of new advanced machinery and equipment at their current locations.

In response to the rapidly increasing data traffic and central location advantage, the DFW market is becoming one of the largest data center markets in the nation. Stream Data Centers’ 138,000-square-foot hyperscale DFW VII data center is expected to be completed in the third quarter of 2019. Ultimately, the campus will total approximately 400,000 square feet on 22 acres. Digital Realty, the largest colocation provider in the world, is also increasing its investment in Garland with another \$500 million by adding 16 acres of development. The campus will total 1 million square feet on 64 acres.

RagingWire Data Centers opened a 200,000-square-foot facility in 2017 and will continue to expand with an additional 600,000 square feet.

The area along the President George Bush Turnpike has also seen a tremendous amount of commercial development, such as data centers, mixed use and other projects, totaling more than \$3 billion in new investments. The City has a growing retail base with developments such as Firewheel Town Center – a lifestyle center featuring numerous department stores, specialty shops, restaurants, a hotel and residential – as well as Bass Pro Shops on Lake Ray Hubbard.

EDUCATION

Most of the City, as well as Rowlett and Sachse, is served by the Garland Independent School District. Small portions of the City lie within the Dallas, Mesquite and Richardson school districts. Garland Independent School District presently has 72 schools with approximately 57,000 students.

Higher educational facilities in the area include Amberton University, Collin County Community College District, Eastfield College and Richland College, branches of the Dallas County Community College District, Texas A&M Commerce, North Texas State University, Southern Methodist University, Texas Christian University, Texas Wesleyan College, Texas Woman's University, the University of Texas at Arlington, and the University of Texas at Dallas.

FINANCIAL INSTITUTIONS

Several national banks operate full service banking centers and provide branches within various retail stores and shops throughout the City. Numerous savings and loan associations and credit unions are also located in the City.

RECREATION FACILITIES

The Parks and Recreation Department operates 68 parks, with a total of approximately 2,698 acres. Facilities provided include ball fields, swimming pools, golf facilities, recreation buildings and a tennis center, as well as playgrounds and picnic areas. Lake Lavon, 18 miles northeast of the City, has excellent facilities for fishing, swimming, boating and picnicking. Lake Ray Hubbard, formed by Forney Dam on the East Fork of the Trinity River, provides additional swimming, boating and fishing facilities. A part of the shoreline lies within the City, and offers areas for lakeside recreational and residential development.

CITY OF GARLAND MISCELLANEOUS STATISTICS

Fiscal Year Ended	Population ⁽¹⁾	Assessed	Gas	Electric	Water
		Valuation	Customers	Customers ⁽²⁾	Customers
9/30					
2015	231,618	\$ 10,449,430,568	44,599	84,003	68,804
2016	233,206	11,201,026,680	43,972	84,100	69,219
2017	235,885	12,393,886,711	44,506	84,369	69,294
2018	238,293	13,637,777,356	47,516	87,337	69,642
2019	239,684	15,094,762,333	44,636	88,636	70,037

(1) As reported by the City.

(2) Includes both ONCOR and the City's System.

EMPLOYMENT STATISTICS

	City of Garland (Average Annual)					
	2019 ⁽¹⁾	2018	2017	2016	2015	2014
Civilian Labor Force	129,360	125,188	123,258	122,764	120,836	121,705
Total Employed	125,372	120,733	118,794	118,036	115,756	115,260
Total Unemployed	3,988	4,455	4,464	4,728	5,082	6,448
Unemployment Rate	3.1%	3.6%	3.6%	3.9%	4.2%	5.3%

	Dallas County (Average Annual)					
	2019 ⁽¹⁾	2018	2017	2016	2015	2014
Civilian Labor Force	1,403,835	1,359,225	1,333,933	1,305,202	1,273,945	1,268,571
Total Employed	1,358,824	1,308,543	1,282,785	1,253,334	1,219,597	1,200,663
Total Unemployed	45,001	50,682	51,148	51,868	54,348	67,908
Unemployment Rate	3.2%	3.7%	3.8%	4.0%	4.3%	5.4%

Source: Texas Workforce Commission, Labor Market Information.

(1) Through September, 2019.

BUILDING PERMITS (FISCAL YEAR BASIS)

Year Ended	Single Family Residential		Multifamily Residential		Industrial and Commercial		Other		Grand Total
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	
9/30									
2014	194	\$43,220,629	2	\$10,668,665	28	\$31,354,981	6,020	\$63,048,440	\$148,292,715
2015	168	39,752,654	1	1,122,494	31	77,518,287	8,391	137,960,711	256,354,146
2016	181	51,196,467	7	70,383,353	36	63,557,405	4,051	128,160,969	313,298,194
2017	221	66,809,595	9	159,395,004	62	69,912,104	3,144	59,655,518	355,772,221
2018	756	31,689,495	8	43,449,598	388	129,341,995	7,951	15,605,220	220,086,308
2019 ⁽¹⁾	445	29,410,829	20	66,942,926	352	67,664,193	289	34,450,507	198,468,455

Source: City of Garland Building Inspection Department.

(1) Data as of July 31, 2019.

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APPENDIX B

EXCERPTS FROM THE FINANCIAL STATEMENTS

CITY OF GARLAND, TEXAS

For the Year Ended September 30, 2018

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Independent Auditor's Report

To the Honorable Mayor, Members of the City Council and City Manager
City of Garland, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Garland (the City) as of and for the year ended September 30, 2018, 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 did not audit the financial statements of Garland Housing Finance Corporation (GHFC), the discretely presented component unit of the City of Garland as of and for the year ended December 31, 2017. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the GHFC is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 involves 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.

The Honorable Mayor, Members of the City Council and City Manager
City of Garland, Texas

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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 presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of other auditors, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2018, 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.

Emphasis of Matter

As discussed in Note I.D.11 to the basic financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Beginning net position has been restated to reflect the change in accounting principle resulting from this statement. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Required Supplementary Information, as listed in the table of contents, 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.

The Honorable Mayor, Members of the City Council and City Manager
City of Garland, Texas

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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 accompanying combining and individual fund financial statements and schedules listed in the table of contents and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying combining and individual fund financial statements and schedules listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 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 accompanying combining and individual fund financial statements and schedules listed in the foregoing table of contents are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and statistical section 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.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
March 14, 2019



GARLAND

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**City of Garland, Texas
Management's Discussion and Analysis
(Unaudited)**

As management of the City of Garland, we offer readers of the City of Garland's financial statements this narrative overview and analysis of the financial activities of the City of Garland for the fiscal year ended September 30, 2018. All amounts, unless otherwise indicated, are expressed in dollars.

Financial Highlights

- The assets and deferred outflows of the City of Garland (the City) exceeded its liabilities and deferred inflows at the close of the fiscal year by \$844,605,344. Ending net position for governmental activities amount to \$187,842,411 and the ending net position for the business type activities amount to \$656,762,933.
- Net position for the governmental activities increased \$1,392,465 and the net position for the business type activities increased \$58,597 for a total increase in the City's net position of \$1,451,062. Contributing factors related to the increase in governmental activities and in business type activities are discussed in the governmental activities and business type activities sections of this overview and analysis.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$106,753,621. Of the combined ending fund balances, \$56,595,142 is restricted, \$19,555,890 is committed, \$12,985,580 is assigned, and \$17,619,009 is unassigned.

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 themselves.

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 inflows/outflows, and liabilities with the difference 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).

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, public safety, highways and streets, landfill, economic development, and culture and recreation. The business-type activities of the City include electric, water, sewer, golf, heliport, storm water, parks performance, and sanitation operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate non-profit corporation for which the City is financially accountable. Financial information for the component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 25-26 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, like other state and local governments, 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. The City also maintains a fiduciary trust fund for the other post-employment benefits (OPEB).

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 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 it to the information presented for 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 balance sheet and the statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains thirteen individual governmental funds. The General Fund, the Debt Service Fund, and the Capital Projects Fund, are considered to be major funds. Major funds are presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. Data from the other ten 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 this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided as required supplementary information for the General Fund to demonstrate compliance with this budget.

The basic governmental funds financial statements can be found on pages 27-30 of this report.

Proprietary funds

The City maintains two different types of proprietary funds, enterprise funds and internal service 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 electric, water, sewer, golf, heliport, storm water management, parks performance, and sanitation operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for group health, self-insurance, long-term disability insurance, fleet, vehicle replacement, information technology, facilities management, warehouse, and customer service operations. The internal service funds are allocated between the governmental and business-type activities based on the level of support each internal service provides to a governmental and business-type activity.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The electric, water, and sewer operations are considered to be major funds of the City. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the non-major enterprise funds can be found on pages 111-115 and for the internal service funds on pages 117-119.

The proprietary fund financial statements can be found on pages 31-35 of this report.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 36-37 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 38-96 of this report.

Other information

Required supplementary information concerning the General Fund schedule of revenues, expenditures, and changes in fund balances – budget and actual for the year ended September 30, 2018, the net pension liability schedules, and the City's Net Other Postemployment Benefits (OPEB) liability schedules, are presented on pages 97-103 of this report.

Government-wide Financial Analysis

Total assets and deferred outflows at fiscal year-end amount to \$2,147,706,811. Current and other assets comprise 30.05% and capital assets comprise 68.51% of the total assets and deferred outflows. Total assets and deferred outflows increased \$57,707,072 during the fiscal year primarily as a result of changes in building, improvements, equipment, and systems. Significant additions to fixed asset and construction in progress are described in the capital asset section of this overview and analysis.

Total liabilities and deferred inflows at the end of the fiscal year amount to \$1,303,101,467. Long-term liabilities comprise 90.29% and other liabilities comprise 7.52% of the total liabilities and deferred liabilities. Total liabilities and deferred inflows increased \$56,256,010 during the fiscal year.

As mentioned earlier, net position may serve over time as a useful indicator of the government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows (net position) by \$844,605,344 for the fiscal year ended September 30, 2018. The largest portion of the City's net position, \$609,785,039, represents 72.20% of the total net assets and reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and systems) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. 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. An additional portion of the City's net position, \$178,470,672, represents 21.13% of the total net assets and represents resources that are subject to external restrictions on how they may be used. These restrictions are detailed in revenue bond debt covenants, the City of Garland Charter, grant contracts, and state law. The remaining balance of unrestricted net assets, \$56,349,633, represents 6.67% of total net assets and may be used to meet the City's ongoing obligations to citizens and creditors.

A comparative schedule of condensed government-wide net position is presented on the following page.

City of Garland, Texas
Management's Discussion and Analysis (continued)
September 30, 2018

Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 203,273,618	\$ 190,064,625	\$ 442,168,944	\$ 458,361,602	\$ 645,442,562	\$ 648,426,227
Capital assets	433,234,674	399,949,596	1,038,060,107	979,785,820	1,471,294,781	1,379,735,416
Total assets	636,508,292	590,014,221	1,480,229,051	1,438,147,422	2,116,737,343	2,028,161,643
Total deferred outflows of resources	21,677,961	44,278,013	9,291,507	17,560,083	30,969,468	61,838,096
Long-term liabilities						
Outstanding	383,881,567	385,720,772	792,630,170	761,268,277	1,176,511,737	1,146,989,049
Other liabilities	65,640,272	58,060,555	32,386,451	35,594,960	98,026,723	93,655,515
Total liabilities	449,521,839	443,781,327	825,016,621	796,863,237	1,274,538,460	1,240,644,564
Total deferred inflows of resources	20,822,003	4,060,961	7,741,004	2,139,932	28,563,007	6,200,893
Net position:						
Net investment in capital assets	183,437,109	177,385,098	426,347,930	408,670,773	609,785,039	586,055,871
Restricted for:						
Debt Service	5,304,131	5,239,767	7,801,425	7,301,497	13,105,556	12,541,264
Construction	1,344,990	762,777	-	-	1,344,990	762,777
Rate Mitigation	-	-	156,551,361	179,449,020	156,551,361	179,449,020
Housing Assistance	2,113,317	988,727	-	-	2,113,317	988,727
Other Grant Programs	5,355,448	1,373,805	-	-	5,355,448	1,373,805
Unrestricted	(9,712,584)	699,772	66,062,217	61,283,046	56,349,633	61,982,818
Total net position	\$ 187,842,411	\$ 186,449,946	\$ 656,762,933	\$ 656,704,336	\$ 844,605,344	\$ 843,154,282

2018 beginning net position was restated due to the implementation of Governmental Accounting Standards Board (GASB) statement No. 75. See page 47 of the notes to the financial statements for more information.

City of Garland, Texas
Management's Discussion and Analysis (continued)
September 30, 2018

The total net position increased \$1,451,062 in the 2018 fiscal year. Governmental activities increased \$1,392,465 while the business-type activities increased this total by \$58,597. These increases and decreases are discussed in the governmental activities section and the business-type activities section of this overview and analysis.

Schedule of Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 50,187,798	\$ 49,335,484	\$ 436,268,448	\$ 416,473,295	\$ 486,456,246	\$ 465,808,779
Operating grants and contributions	15,409,934	16,271,994	-	884,150	15,409,934	17,156,144
Capital grants and contributions	11,057,555	12,892,981	3,600,423	3,113,641	14,657,978	16,006,622
General Revenues:						
Property taxes	95,795,752	87,329,443	-	-	95,795,752	87,329,443
Sales taxes	30,129,008	29,894,875	-	-	30,129,008	29,894,875
Other taxes	10,845,365	10,650,995	-	-	10,845,365	10,650,995
Unrestricted interest earnings	2,313,130	1,117,176	3,216,278	1,961,783	5,529,408	3,078,959
Miscellaneous	34,151	606,208	2,100,389	1,395,829	2,134,540	2,002,037
Total Revenues	<u>215,772,693</u>	<u>208,099,156</u>	<u>445,185,538</u>	<u>423,828,698</u>	<u>660,958,231</u>	<u>631,927,854</u>
Expenses:						
General government	34,425,497	33,421,800	-	-	34,425,497	33,421,800
Public safety	108,420,934	107,419,896	-	-	108,420,934	107,419,896
Public works	42,764,067	39,356,985	-	-	42,764,067	39,356,985
Culture and recreation	24,323,627	24,743,188	-	-	24,323,627	24,743,188
Public health	4,405,451	4,682,394	-	-	4,405,451	4,682,394
Interest and fiscal charges	7,339,076	8,391,567	-	-	7,339,076	8,391,567
Electric	-	-	259,269,873	282,989,503	259,269,873	282,989,503
Water	-	-	64,111,798	58,299,626	64,111,798	58,299,626
Sewer	-	-	38,352,152	37,321,258	38,352,152	37,321,258
Golf	-	-	4,583,422	5,080,114	4,583,422	5,080,114
Heliport	-	-	5,315	5,344	5,315	5,344
Storm Water Management	-	-	4,292,213	3,842,023	4,292,213	3,842,023
Parks Performance	-	-	1,248,760	1,259,287	1,248,760	1,259,287
Sanitation	-	-	18,485,025	17,841,828	18,485,025	17,841,828
Total expenses	<u>221,678,652</u>	<u>218,015,830</u>	<u>390,348,558</u>	<u>406,638,983</u>	<u>612,027,210</u>	<u>624,654,813</u>
Change in net position before transfers	(5,905,959)	(9,916,674)	54,836,980	17,189,715	48,931,021	7,273,041
Transfers	<u>40,394,892</u>	<u>30,159,918</u>	<u>(40,394,892)</u>	<u>(30,159,918)</u>	-	-
Increase (decrease) in net position	34,488,933	20,243,244	14,442,088	(12,970,203)	48,931,021	7,273,041
Cumulative effect of change in acctg principle	<u>(33,096,468)</u>	-	<u>(14,383,491)</u>	-	<u>(47,479,959)</u>	-
Net change in net position	1,392,465	20,243,244	58,597	(12,970,203)	1,451,062	7,273,041
Net position - beginning	<u>186,449,946</u>	<u>166,206,702</u>	<u>656,704,336</u>	<u>669,674,539</u>	<u>843,154,282</u>	<u>835,881,241</u>
Net position - ending	<u>\$187,842,411</u>	<u>\$ 186,449,946</u>	<u>\$ 656,762,933</u>	<u>\$656,704,336</u>	<u>\$ 844,605,344</u>	<u>\$ 843,154,282</u>

Governmental activities

Governmental activities increased the City's net position by \$1,392,465 in fiscal year 2018. The City's governmental activities unrestricted net position of (\$9,712,584) reflects commitments made as part of its other post-employment benefit program (OPEB) that will be funded in future years. More details about these benefits and funding strategy can be found on page 75 of the notes.

Key factors that contributed to this improvement are discussed below.

Revenues by Source – Governmental Activities

Revenues by Source

	2018		2017		Amount Change	Percentage Change
	Amount	Percentage	Amount	Percentage		
Charges for services	\$ 50,187,798	23.26%	\$ 49,335,484	23.71%	\$ 852,314	1.73%
Operating grants and contributions	15,409,934	7.14%	16,271,994	7.82%	(862,060)	-5.30%
Capital grants and contributions	11,057,555	5.12%	12,892,981	6.20%	(1,835,426)	-14.24%
Property taxes	95,795,752	44.40%	87,329,443	41.97%	8,466,309	9.69%
Sales taxes	30,129,008	13.96%	29,894,875	14.37%	234,133	0.78%
Other taxes	10,845,365	5.03%	10,650,995	5.12%	194,370	1.82%
Unrestricted interest earnings	2,313,130	1.07%	1,117,176	0.54%	1,195,954	107.05%
Miscellaneous	34,151	0.02%	606,208	0.29%	(572,057)	-94.37%
Total Revenues	<u>\$ 215,772,693</u>		<u>\$ 208,099,156</u>		<u>\$ 7,673,537</u>	

Key changes in revenue by source included the following:

Property tax revenue increased \$8,466,309 due to an increase in the value of the tax base of 10.7% related to new construction in the City and increases in the existing tax base.

Unrestricted interest earnings increased \$1,195,954 as a result of higher yields earned on investments.

Capital grants and contributions decreased \$1,835,426 as a result of a decrease in recovery of expenditures related to shared infrastructure construction projects during FY18.

Expenses by Source - Governmental Activities

	Expenses by Source		
	2018	2017	Change
General government	\$ 34,425,497	\$ 33,421,800	\$ 1,003,697
Public safety	108,420,934	107,419,896	1,001,038
Public works	42,764,067	39,356,985	3,407,082
Culture and recreation	24,323,627	24,743,188	(419,561)
Public health	4,405,451	4,682,394	(276,943)
Interest and fiscal charges	7,339,076	8,391,567	(1,052,491)
Total Expense	<u>\$ 221,678,652</u>	<u>\$ 218,015,830</u>	<u>\$ 3,662,822</u>

The \$3,662,822 change in expenses is primarily due to the following:

- Public Works expenses increased \$3,407,082 due to a significant increase in infrastructure improvements. It should be noted that over the past several years, the City Council has aggressively addressed declining street and alley conditions. Funding in the FY17-18 budget totaled \$26.6 million, a 28.5% increase from the prior year.

Business-type Activities

Business-type activities increased the City's net position by \$58,597. Key factors that contributed to the change are discussed below.

- The electric utility incurred a net income of \$2,342,626. The net income for the electric utility increased \$23,090,436 from the prior fiscal year as a result of the following:
 - Amortization of prepaid demand charge decreased.
 - Fuel and energy purchases and general and administrative expense increased, while salary and benefit expenses decreased.
 - Retail revenue increased.
- The water utility incurred a net income of \$7,367,954. Key elements to this change are as follows.
 - Charges for services increased due to a rate increase of 12% and a 9% increase in consumption from the previous year.
 - Operating expenses increased due to a rate increase from NTMWD and an increase in support services expense related to the new billing system upgrade.
- The sewer utility incurred a net income of \$927,445. The net income for the sewer utility decreased \$1,316,607 from the prior fiscal year as a result of the following:
 - Operating expenses increased \$1,030,348 due to positions filled during FY18 which were vacant in FY17, merit/performance raises, as well as an increase in support services expense related to the new billing system upgrade.
- The combined net income for non-major enterprise funds (golf, heliport, storm water management, parks performance, and sanitation) amounted to \$458,400.

City of Garland, Texas
Management's Discussion and Analysis (continued)
September 30, 2018

Revenues by Source – Business-type Activities

	Charges for Service			Operating Grants and Contributions		
	2018	2017	Change	2018	2017	Change
Electric	\$ 287,169,337	\$ 279,846,202	\$ 7,323,135	\$ -	\$ 609,323	\$ (609,323)
Water	76,184,876	63,623,236	12,561,640	-	-	-
Sewer	43,902,151	44,237,184	(335,033)	-	-	-
Non-major Enterprise	29,012,084	28,766,673	245,411	-	274,827	(274,827)
Total	\$ 436,268,448	\$ 416,473,295	\$ 19,795,153	\$ -	\$ 884,150	\$ (884,150)

	Capital Grants and Contributions			Miscellaneous		
	2018	2017	Change	2018	2017	Change
Electric	\$ 108,784	\$ 11,450	\$ 97,334	\$ 1,353,744	\$ 716,519	\$ 637,225
Water	2,319,419	2,098,607	220,812	349,046	338,728	10,318
Sewer	1,172,220	1,003,584	168,636	105,850	106,793	(943)
Non-major Enterprise	-	-	-	291,749	233,797	57,952
Total	\$ 3,600,423	\$ 3,113,641	\$ 486,782	\$ 2,100,389	\$ 1,395,837	\$ 704,552

Expenses by Source – Business-type Activities

	2018	2017	Amount Change	Percentage Change
Electric	\$259,269,873	\$ 282,989,503	\$(23,719,630)	-8.38%
Water	64,111,798	58,299,626	5,812,172	9.97%
Sewer	38,352,152	37,321,258	1,030,894	2.76%
Non-Major	28,614,735	28,028,596	586,139	2.09%
	\$390,348,558	\$ 406,638,983	\$(16,290,425)	-4.01%

Fiduciary funds

In the 2009 fiscal year, the City established an Other Post Employment Benefit Trust Fund which allows the City to capture long-term returns to make progress towards reducing the unfunded liability of post-employment health care. A \$1,250,000 contribution in excess of the pay-as-you-go costs was made to the trust fund during the 2018 fiscal year. The City will make future contributions to the trust fund as economic conditions permit to lower the OPEB unfunded actuarial accrued liability and to ensure that funding is available for future retiree medical benefits.

Capital Asset and Debt Administration

Capital Assets

At the end of the 2018 fiscal year, the City had \$1,471,294,781 invested in a broad range of capital assets including police and fire equipment, buildings, park facilities, roads, bridges, an electric system, a water system, and a sewer system. This amount represents a net increase of \$91,559,365 or 6.64% increase from the prior fiscal year. Key elements of this change are as follows:

	Capital Assets at Fiscal Year-end (Net of Accumulated Depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 99,348,015	\$ 83,057,383	\$ 42,089,765	\$ 29,307,887	\$ 141,437,780	\$ 112,365,270
Construction in Progress	30,726,128	56,485,374	35,501,905	148,914,516	66,228,033	205,399,890
Building, Improvements, equipment and systems	303,160,531	260,406,839	960,468,437	801,563,417	1,263,628,968	1,061,970,256
Total capital assets	<u>\$ 433,234,674</u>	<u>\$ 399,949,596</u>	<u>\$1,038,060,107</u>	<u>\$ 979,785,820</u>	<u>\$1,471,294,781</u>	<u>\$1,379,735,416</u>

City of Garland, Texas
Management's Discussion and Analysis (continued)
September 30, 2018

Major capital asset additions for the current fiscal year included (amounts rounded to the nearest thousand):

Description	Amount (000's)
GP&L Transmission Poles & Fixtures	\$107,277
GP&L Transmission OH Conductor Devices	33,361
Rowlett Creek WWTP Bio solids Expansion & Odor Abatement	26,231
Pleasant Valley Road Bridge including Storm Drainage and Paving Improvements	13,168
GP&L Land Acquisition	12,763
Radio Communications System	10,462
Citywide Street Improvements	7,943
Rosehill Land Acquisition	6,440
Hypermart Land Acquisition	5,931
New Fire Station 5	4,166
GP&L Substation Transmission Equipment	3,298
GP&L Distribution Line Transformers	3,064
GP&L Distribution Street Lights & Signal Systems	2,703
Rowlett Creek WWTP Process Improvements	2,659
Library Materials Management System	2,488
Bridge Remediation Phase 1B	2,447
GP&L Distribution UG Conductors & Devices	2,216
Solid Waste Garbage Collection Equipment	2,041
Parkmont Drive Street & Storm Drainage Improvements	2,025
GP&L Turbogenerator Units	1,934
GP&L Building	1,779
GP&L Distribution Poles, Towers & Fixtures	1,686
Fleet Services Customer Waiting Area	1,607
Water Transmission Mains 16 inch & above	1,568
Firefighting Apparatus	1,358
Relocation Water Mains prior to paving	1,193
Radio Read Water Meters	1,055
Relocation of Sewer Mains prior to paving	1,035
Library Materials	1,021

City of Garland, Texas
 Management's Discussion and Analysis (continued)
 September 30, 2018

A few of the Capital Improvement Program projects under construction at the end of the current fiscal year included (amounts rounded to the nearest thousand):

<u>Description</u>	<u>Amount</u> <u>(000's)</u>
Street Reconstruction	\$ 6,813
GP&L Transmission Line-Wylie Switchyard to Firewheel 138KV	2,538
Banner Upgrade 5	2,356
Water Distribution Line-up to 14 inch	2,031
GP&L Apollo Substation Rebuild	1,989
GP&L Dent Road Substation	1,525
Carver Center Renovation	1,378
GP&L Transmission Line-Dent Road to Shelby 138KV	1,280
Sewer Collection Mains	1,192
GP&L ETRM System	1,137
Sewer Infiltration Correction	1,113
Relocation of Water Mains Prior to Paving	1,064
GP&L Distribution OH Line	1,029
Shiloh Road: IH 635 to Kingsley	1,014

Additional information on the City's capital assets can be found in note IV.C. on pages 56-58 of this report.

City of Garland, Texas
Management's Discussion and Analysis (continued)
September 30, 2018

Debt

Debt issues outstanding for the fiscal years 2018 and 2017 were as follows:

	Governmental		Business-type		Total		
	Activities		Activities		2018	2017	Change
	2018	2017	2018	2017	2018	2017	
Long-Term:							
General obligation bonds	\$161,905,000	\$181,210,000	\$ 18,105,000	\$ 26,845,000	\$ 180,010,000	\$208,055,000	\$ (28,045,000)
Certificates of obligation	98,400,000	80,435,000	156,320,000	167,365,000	254,720,000	247,800,000	6,920,000
Utility system revenue bonds	-	-	396,300,000	346,395,000	396,300,000	346,395,000	49,905,000
Commercial paper	-	-	159,440,000	163,280,000	159,440,000	163,280,000	(3,840,000)
Total Long-Term	<u>260,305,000</u>	<u>261,645,000</u>	<u>730,165,000</u>	<u>703,885,000</u>	<u>990,470,000</u>	<u>965,530,000</u>	<u>24,940,000</u>
Short-Term:							
Commercial Paper	6,000,000	-	-	-	6,000,000	-	6,000,000
Tax Note	12,195,000	8,305,000	-	-	12,195,000	8,305,000	3,890,000
Total Short-Term	<u>18,195,000</u>	<u>8,305,000</u>	<u>-</u>	<u>-</u>	<u>18,195,000</u>	<u>8,305,000</u>	<u>9,890,000</u>
Total outstanding debt	<u>\$278,500,000</u>	<u>\$269,950,000</u>	<u>\$730,165,000</u>	<u>\$703,885,000</u>	<u>\$1,008,665,000</u>	<u>\$973,835,000</u>	<u>\$34,830,000</u>

City of Garland, Texas
Management's Discussion and Analysis (continued)
September 30, 2018

During the fiscal year, the City issued the following debt:

Issue	Principal	Bond Ratings	
		Standard & Poor's	Fitch IBCA
Long-term			
Certificates of Obligation Bonds, Series 2018	\$ 29,955,000	AA+	AAA
Electric Utility System Revenue Refunding Bonds, New Series 2018	31,985,000	A+	AA-
Water and Sewer System Revenue Refunding Bonds, New Series 2018	48,310,000	AA-	AA
Electric System Notes, Series 2016	131,970,000	A-1+	
Electric Commercial Paper, Series 2018	27,470,000	A+	A+
Short-term			
Tax Anticipation Note, Series 2018	12,195,000		
Total debt financing	<u>\$281,885,000</u>		

The proceeds of the Certificates of Obligation Bonds, Series 2018 will be used for the following:

- Constructing, equipping, and improving various facilities in the City,
- Acquiring equipment and vehicles for Firewheel golf course, the environmental waste services department, the solid waste department, the stormwater management department, and the municipal street department,
- Street improvements and infrastructure improvements.

The proceeds of the Electric Utility System Revenue Refunding Bonds, New Series 2018 were used to refund Electric Utility System Revenue Bonds, Series 2008 at the call date and take out \$29,425,000 of Electric commercial paper debt, Series 2014.

The proceeds of the Water and Sewer System Revenue Refunding Bonds, New Series 2018 were used to take out \$55,000,000 of Water and Sewer commercial paper debt, Series 2015.

In fiscal year 2010, the City along with other TMPA member cities elected to issue bonds based on the percentage of their annual net energy load and placed the proceeds with TMPA. Since the proceeds from the issuance of this debt will benefit the City over future years the City has elected to record an other asset and a corresponding bonds payable liability, reoffering premium, interest and sinking fund deposit, underwriters discount and issuance cost to record this transaction. The other asset of \$138,252,850 is being amortized using a straight-line method over a period of 20 years based on the life of the economic benefit that the City is receiving from this transaction. During the current fiscal year, the City amortized \$6,912,643 of the asset resulting in a fiscal year-end balance in other assets of \$79,495,389. In August, 2017, the TMPA Board of Directors approved a plan of "seasonal operations" in which the Gibbons Creek plant will operate in the summer months beginning in 2018. Operations during years after 2018 will be evaluated on an annual basis. The TMPA other asset becomes impaired as a result of this determination. Further information related to the asset impairment is available on pages 84-86.

In 2015, the City elected to issue Combination Tax & Electric Utility System Surplus Revenue Refunding Bonds for the purpose of prepaying certain contractual obligations to TMPA. Since the proceeds of this debt issuance were placed with an escrow agent and the City received an economic benefit over a period of years, an Other Assets was recorded in the Electric Fund Statement of Net Position in the amount of \$59,270,000. The Other Asset was fully amortized at fiscal year-end 2017.

In 2016, the City initiated the \$139,245,000 Electric Utility System Note, Series 2016 for the Electric Fund. The Note, which functions similar to commercial paper, has a three-year term with proceeds being used for constructing the Limestone to Gibbons Creek transmission line. The Electric Fund had drawn \$131,970,000 at fiscal year-end.

Additional information on the City's debt can be found in note IV.E of this report.

The City's Funds

At the close of the City's fiscal year, the governmental funds of the City reported a combined fund balance of \$106,753,621, an increase of \$1,906,400 from the prior fiscal year.

The General Fund ended the fiscal year with a fund balance of \$34,933,337 which was a decrease of \$265,088 from the prior fiscal year. The original budget projected a decrease in fund balance of \$8,565,974 which was later revised to a decrease of \$14,354,894 in fund balance to fund one-time capital and operating needs. Favorable budget variances were experienced for revenues as well as expenditures for the fiscal year. Actual revenues exceeded final budgeted revenues by \$1,741,528 and actual expenditures were under the final budget amount by \$12,235,600. However, \$10,755,524 of this positive budget variance is related to council approved street and infrastructure projects and other encumbrances related to unperformed contracts for good or services (i.e. purchase orders). A budget amendment has been approved by City Council to roll the funding for these

projects and encumbrances in the FY18-19 budget year. The remaining favorable budget variance was a result of better than anticipated service charges, and other operational expenditure savings across General Fund departments.

The Debt Service Fund ended the fiscal year with a fund balance of \$6,556,425 due to a net increase in fund balance for the fiscal year of \$258,376.

The Capital Projects Fund ended the fiscal year with a fund balance of \$50,980,542 due to a net decrease in fund balance for the fiscal year of \$309,691.

General Fund Budgetary Highlights

During the fiscal year ended September 30, 2018, the City Council amended the budget for the General Fund on several occasions. The amendments were comprised of supplemental appropriations and adjusted budgets. Appropriations are adjusted annually for open purchase orders and various grant awards. Budgets are reviewed and adjusted during the fiscal year to address changing operational and/or economic situations. These amendments amounted to increased appropriations of \$1,288,044.

Economic Factors and Next Year's Budgets and Rates

The City's unemployment rate at September 30, 2018 was 3.4% and the State of Texas unemployment rate was 3.7%. The City's estimated population of 238,293 (as estimated at January 1, 2018 by the City's Planning department) remained virtually unchanged from the prior year.

The primary focus of the FY 2017-18 Budget was to provide additional resources to address public safety staffing needs, further improvement of the City's street and alley repairs, and addresses various needs in core service areas such as parks, libraries, animal services, and transportation safety. Funding to implement a critical strategy to reduce the City's unfunded liability related to subsidized retiree health-care coverage was also included. Finally, the budget provides pay increases to maintain employee compensation at market levels.

The primary focus of the FY 2018-19 Budget was to begin addressing items that were deferred during the recession and are negatively impacting core City services and quality of life in the Garland community.

- Maintain elevated funding for the street repair program.
- Address public safety staffing needs in police patrol and fire.
- Expand redevelopment focus.
- Bolster City's ability to manage and complete capital projects.
- Elevate park maintenance and expand City-sponsored event venues.
- Enhance the care of animals at the City's shelter.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Services Department at the City of Garland, 200 North Fifth Street, Garland, TX 75040 or through the City's internet site www.garlandtx.gov.



GARLAND

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City of Garland, Texas
Statement of Net Position
September 30, 2018

	Primary Government		Total	Component Unit
	Governmental Activities	Business-Type Activities		As of December 31, 2017
ASSETS				
Cash and cash equivalents	\$ 114,559,495	\$ 45,155,126	\$ 159,714,621	\$ 1,252,879
Investments	78,939,537	28,875,155	107,814,692	101,195
Accounts Receivable, net of allowance for uncollectibles	19,220,377	75,470,345	94,690,722	201,612
Due from other governments	564,813	-	564,813	-
Internal Balances	(22,736,170)	22,736,170	-	-
Inventories	6,431,476	4,470,597	10,902,073	-
Prepaid and other items	18,799	1,629,639	1,648,438	5,000
Restricted Assets:				
Cash and cash equivalents	3,109,814	97,820,705	100,930,519	-
Investments	1,552,791	84,898,175	86,450,966	-
Accrued interest	4,382	302,345	306,727	-
Assets held for resale	516,586	-	516,586	363,545
Capital Assets:				
Land	99,348,015	42,089,765	141,437,780	1,570,767
Construction in Progress	30,726,128	35,501,905	66,228,033	-
Buildings, Improvements, Equipment and System (net of accumulated depreciation)	303,160,531	960,468,437	1,263,628,968	-
Other Assets	-	80,402,970	80,402,970	-
Net pension assets	1,091,718	407,717	1,499,435	-
Total assets	636,508,292	1,480,229,051	2,116,737,343	3,494,998
DEFERRED OUTFLOWS OF RESOURCES				
Fair value of energy risk derivatives	-	661,192	661,192	-
Deferred charges on debt refunding	371,410	824,589	1,195,999	-
Deferred charges on pensions	14,840,856	5,542,524	20,383,380	-
Deferred charges on OPEB	6,465,695	2,263,202	8,728,897	-
Total deferred outflows of resources	21,677,961	9,291,507	30,969,468	-
LIABILITIES				
Accounts payable and accrued liabilities	19,265,614	27,438,346	46,703,960	-
Escrow payable	637,690	254,675	892,365	-
Retainage payable	1,792,290	919,800	2,712,090	-
Accrued interest payable	1,588,514	3,523,630	5,112,144	-
Customer deposits	15,897,745	250,000	16,147,745	-
Tax Note Payable	12,195,000	-	12,195,000	-
Commercial Paper	6,000,000	-	6,000,000	-
Unearned revenue	8,263,419	-	8,263,419	1,393,533
Noncurrent Liabilities:				
Due within one year	43,057,998	54,100,318	97,158,316	2,906
Due in more than one year	340,823,569	738,529,852	1,079,353,421	-
Total liabilities	449,521,839	825,016,621	1,274,538,460	1,396,439
DEFERRED INFLOWS OF RESOURCES				
Deferred charges on debt refunding	110,450	26,924	137,374	-
Deferred charges on pensions	19,818,050	7,401,325	27,219,375	-
Deferred charges on OPEB	893,503	312,755	1,206,258	-
Total deferred inflows of resources	20,822,003	7,741,004	28,563,007	-
NET POSITION				
Net investment in capital assets	183,437,109	426,347,930	609,785,039	1,570,767
Restricted for:				
Debt Service	5,304,131	7,801,425	13,105,556	-
Construction	1,344,990	-	1,344,990	-
Rate Mitigation	-	156,551,361	156,551,361	-
Housing	2,113,317	-	2,113,317	-
Other Grant Programs	5,355,448	-	5,355,448	-
Unrestricted net position	(9,712,584)	66,062,217	56,349,633	527,792
Total net position	\$ 187,842,411	\$ 656,762,933	\$ 844,605,344	\$ 2,098,559

The notes to the financial statements are an integral part of this statement.

City of Garland, Texas
Statement of Activities
For the Year Ended September 30, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit as of 12/31/2017
	Expenses	Charges for services	Operating	Capital	Primary Government			
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental activities:								
General government	\$ 34,425,497	\$ 9,910,970	\$ 14,247,375	\$ -	\$ (10,267,152)	\$ -	\$ (10,267,152)	\$ -
Public safety	108,420,934	19,654,603	668,136	-	(88,098,195)	-	(88,098,195)	-
Public works	42,764,067	18,752,900	-	11,057,555	(12,953,612)	-	(12,953,612)	-
Culture and recreation	24,323,627	1,354,400	8,492	-	(22,960,735)	-	(22,960,735)	-
Public health	4,405,451	514,925	485,931	-	(3,404,595)	-	(3,404,595)	-
Interest and fiscal charges	7,339,076	-	-	-	(7,339,076)	-	(7,339,076)	-
Total governmental activities	<u>221,678,652</u>	<u>50,187,798</u>	<u>15,409,934</u>	<u>11,057,555</u>	<u>(145,023,365)</u>	<u>-</u>	<u>(145,023,365)</u>	<u>-</u>
Business type activities:								
Electric	259,269,873	287,169,337	-	108,784	-	28,008,248	28,008,248	-
Water	64,111,798	76,184,876	-	2,319,419	-	14,392,497	14,392,497	-
Sewer	38,352,152	43,902,151	-	1,172,220	-	6,722,219	6,722,219	-
Golf	4,583,422	3,708,057	-	-	-	(875,365)	(875,365)	-
Heliport	5,315	7,257	-	-	-	1,942	1,942	-
Storm Water Management	4,292,213	4,326,657	-	-	-	34,444	34,444	-
Parks Performance	1,248,760	1,092,368	-	-	-	(156,392)	(156,392)	-
Sanitation	18,485,025	19,877,745	-	-	-	1,392,720	1,392,720	-
Total business-type activities	<u>390,348,558</u>	<u>436,268,448</u>	<u>-</u>	<u>3,600,423</u>	<u>-</u>	<u>49,520,313</u>	<u>49,520,313</u>	<u>-</u>
Total primary government	<u>\$ 612,027,210</u>	<u>\$ 486,456,246</u>	<u>\$ 15,409,934</u>	<u>\$ 14,657,978</u>	<u>(145,023,365)</u>	<u>49,520,313</u>	<u>(95,503,052)</u>	<u>-</u>
Component units								
Garland Housing Finance Corp.	\$ 246,963	\$ 748,327	\$ -	\$ -	-	-	-	\$ 501,364
	<u>\$ 246,963</u>	<u>\$ 748,327</u>	<u>\$ -</u>	<u>\$ -</u>				
General revenues:								
Sales taxes					30,129,008	-	30,129,008	-
Franchise fees based on gross receipts					8,912,728	-	8,912,728	-
Property taxes					95,795,752	-	95,795,752	-
Hotel/Motel taxes					1,431,266	-	1,431,266	-
Mixed drink taxes					413,241	-	413,241	-
Bingo taxes					88,130	-	88,130	-
Unrestricted investment earnings					2,313,130	3,216,278	5,529,408	7,233
Miscellaneous					34,151	2,100,389	2,134,540	-
Transfers					40,394,892	(40,394,892)	-	-
Total general revenues and transfers					<u>179,512,298</u>	<u>(35,078,225)</u>	<u>144,434,073</u>	<u>7,233</u>
Change in net position					34,488,933	14,442,088	48,931,021	508,597
Net position - beginning					186,449,946	656,704,336	843,154,282	1,589,962
Cumulative effect of change in accounting principle					(33,096,468)	(14,383,491)	(47,479,959)	-
Net position-beginning, as restated					<u>153,353,478</u>	<u>642,320,845</u>	<u>795,674,323</u>	<u>1,589,962</u>
Net position-ending					<u>\$ 187,842,411</u>	<u>\$ 656,762,933</u>	<u>\$ 844,605,344</u>	<u>\$ 2,098,559</u>

The notes to the financial statements are an integral part of this statement.

**City of Garland, Texas
Governmental Funds
Balance Sheet
September 30, 2018**

	General	Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 22,272,718	\$ 6,506,988	\$ 44,853,470	\$ 8,205,239	\$ 81,838,415
Investments	16,363,861	-	32,898,790	5,992,753	55,255,404
Receivables:					
Accounts, net	12,186,644	-	-	3,558,713	15,745,357
Taxes, net	489,166	385,622	-	-	874,788
Accrued interest	48,779	35	107,815	16,375	173,004
Assessments	16,032	-	-	-	16,032
Other	-	-	574,948	-	574,948
Due from other funds	1,924,636	-	2,217	-	1,926,853
Due from other governments	135,101	-	-	429,712	564,813
Assets held for resale	-	-	-	516,586	516,586
Restricted assets:					
Cash and cash equivalents	-	-	-	1,006,399	1,006,399
Total Assets	\$ 53,436,937	\$ 6,892,645	\$ 78,437,240	\$ 19,725,777	\$ 158,492,599
LIABILITIES					
Accounts payable and accrued liabilities	\$ 12,521,097	\$ -	\$ 2,468,046	\$ 572,824	\$ 15,561,967
Accrued interest-CO's	-	-	-	8,242	8,242
Escrow payable	-	-	170,600	467,090	637,690
Due to other funds	44,311	-	961,736	77,975	1,084,022
Unearned revenues	544,687	-	3,404,085	4,314,647	8,263,419
Retainage payable	19,658	-	1,770,950	1,682	1,792,290
Tax note payable	-	-	12,195,000	-	12,195,000
Commercial paper	-	-	6,000,000	-	6,000,000
Total Liabilities	13,129,753	-	26,970,417	5,442,460	45,542,630
DEFERRED INFLOWS OF RESOURCES	5,373,847	336,220	486,281	-	6,196,348
FUND BALANCES					
Fund balances:					
Restricted	2,661,895	6,556,425	41,224,962	6,151,860	56,595,142
Committed	11,399,953	-	-	8,155,937	19,555,890
Assigned	3,230,000	-	9,755,580	-	12,985,580
Unassigned	17,641,489	-	-	(24,480)	17,617,009
Total Fund Balances	34,933,337	6,556,425	50,980,542	14,283,317	106,753,621
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 53,436,937	\$ 6,892,645	\$ 78,437,240	\$ 19,725,777	\$ 158,492,599

The notes to the financial statements are an integral part of this statement.

**City of Garland, Texas
Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Position
September 30, 2018**

Total fund balances - governmental funds	\$	106,753,621
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		375,816,272
Certain receivables will be collected this year, but are not available soon enough to pay for the current period's expenditures and are, therefore, deferred in the funds.		6,196,348
Net pension asset and deferred outflows related to pensions.		13,844,292
Deferred outflows related to OPEB.		5,410,919
Bond interest is not accrued at the fund level.		(1,444,421)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities consist of:		
Bonds payable		(237,650,000)
Landfill closure costs		(13,464,219)
Compensated absences		(22,130,941)
Unamortized premium on refunding		(15,014,299)
Other Post Employment Benefits liability payable		(49,604,756)
Deferred loss on debt refunding		295,498
Deferred gain on debt refunding		(106,707)
Deferred inflows related to pensions.		(17,220,498)
Deferred inflows related to OPEB.		(747,743)
Internal service funds net position adjustment excluding assets and liabilities included in the adjustments listed above. Internal service funds are used by management to charge the costs of various services to individual funds. Certain assets and liabilities of the internal service funds are included with governmental activities in the statement of net position.		36,909,045
Total net position - governmental activities	\$	187,842,411

The notes to the financial statements are an integral part of this statement.

**City of Garland, Texas
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended September 30, 2018**

	General	Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 83,444,868	\$ 41,727,175	\$ -	\$ 2,592,054	\$ 127,764,097
Franchise fees	8,912,728	-	-	-	8,912,728
Service charges	27,082,445	-	-	-	27,082,445
Licenses and permits	4,488,052	-	-	-	4,488,052
Earnings on investments	669,993	184,515	693,637	155,630	1,703,775
Intergovernmental	1,851,230	-	-	14,386,097	16,237,327
Charges for services	9,819,344	-	-	-	9,819,344
Fines and forfeits	7,234,696	-	-	-	7,234,696
Rents and concessions	771,769	-	-	-	771,769
Assessments	-	-	39,872	-	39,872
Impact fees	-	-	-	1,441,120	1,441,120
Program income	-	-	-	1,405,285	1,405,285
Court awarded seizures	-	-	-	160,403	160,403
Miscellaneous and other	-	60,839	6,438,386	121,656	6,620,881
Total revenues	<u>144,275,125</u>	<u>41,972,529</u>	<u>7,171,895</u>	<u>20,262,245</u>	<u>213,681,794</u>
EXPENDITURES					
Current:					
General government	11,750,399	-	333,446	-	12,083,845
Public safety	95,537,161	-	-	-	95,537,161
Public works	27,150,168	-	-	-	27,150,168
Culture and recreation	16,471,742	-	-	-	16,471,742
Public health	3,833,685	-	-	-	3,833,685
Nondepartmental	27,873,387	-	-	-	27,873,387
Operations	-	-	-	16,288,216	16,288,216
Capital outlay	-	-	45,230,544	1,213,870	46,444,414
Debt service:					
Principal	-	24,600,000	-	185,000	24,785,000
Interest	-	9,261,125	-	445,419	9,706,544
Other and fiscal expenditures	-	147,014	268,612	-	415,626
Total expenditures	<u>182,616,542</u>	<u>34,008,139</u>	<u>45,832,602</u>	<u>18,132,505</u>	<u>280,589,788</u>
Excess (deficiency) of revenues over (under) expenditures	(38,341,417)	7,964,390	(38,660,707)	2,129,740	(66,907,994)
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of capital assets	23,888	-	45,000	-	68,888
Transfers in	45,446,781	685,460	20,141,595	293,063	66,566,899
Transfers out	(7,394,340)	(8,391,474)	(10,267,704)	(200,000)	(26,253,518)
Issuance of debt	-	-	25,365,000	-	25,365,000
Premium on issuance of debt	-	-	3,067,125	-	3,067,125
Total other financing sources (uses)	<u>38,076,329</u>	<u>(7,706,014)</u>	<u>38,351,016</u>	<u>93,063</u>	<u>68,814,394</u>
Net change in fund balance	(265,088)	258,376	(309,691)	2,222,803	1,906,400
Fund balances - beginning	35,198,425	6,298,049	51,290,233	12,060,514	104,847,221
Fund balances - ending	<u>\$ 34,933,337</u>	<u>\$ 6,556,425</u>	<u>\$ 50,980,542</u>	<u>\$ 14,283,317</u>	<u>\$ 106,753,621</u>

The notes to the financial statements are an integral part of this statement.

City of Garland, Texas
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance to the Statement of Activities
For the Year Ended September 30, 2018

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 1,906,400
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	33,463,697
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(1,524,322)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(2,054,614)
Other long-term liabilities related to pension expense and contributions, are not due and payable in the current period and therefore, are not reported in governmental funds.	(1,522,461)
Other Post Employment Benefits liability is accrued in the government wide financial statements but not at the fund level.	(1,227,557)
Interest is accrued in the government wide financial statements but not at the fund level. This represents the change in the accrual during the period.	(192,723)
Internal service funds are used by management to charge the costs of vehicle services, building services, printing services, and insurance services to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>5,640,513</u>
Net change in net position-total governmental activities	<u><u>\$ 34,488,933</u></u>

The notes to the financial statements are an integral part of this statement.

City of Garland, Texas
Proprietary Funds
Statement of Net Position
September 30, 2018

	Business-type Activities					Governmental Activities
	Electric	Water	Sewer	Other Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 25,264,830	\$ 7,885,783	\$ 9,332,259	\$ 2,672,254	\$ 45,155,126	\$ 32,721,080
Investments	14,324,516	5,758,493	6,833,962	1,958,184	28,875,155	23,684,134
Receivable, net of allowance	57,645,848	9,241,535	5,830,994	2,662,008	75,380,385	1,769,029
Accrued interest	37,956	16,905	29,948	5,151	89,960	67,219
Due from other funds	-	15,562	12,598	952,385	980,545	5,197
Inventories	4,390,052	-	-	80,545	4,470,597	6,431,476
Prepaid expense	1,629,639	-	-	-	1,629,639	18,799
Total current assets	<u>103,292,841</u>	<u>22,918,278</u>	<u>22,039,761</u>	<u>8,330,527</u>	<u>156,581,407</u>	<u>64,696,934</u>
Noncurrent Assets:						
Restricted assets						
Revenue bond reserve fund:						
Cash and cash equivalents	-	3,395,695	2,407,370	-	5,803,065	-
Investments	-	-	1,998,360	-	1,998,360	-
Total revenue bond reserve fund	<u>-</u>	<u>3,395,695</u>	<u>4,405,730</u>	<u>-</u>	<u>7,801,425</u>	<u>-</u>
Rate mitigation:						
Cash and cash equivalents	79,832,716	-	-	-	79,832,716	-
Investments	76,434,636	-	-	-	76,434,636	-
Accrued interest	284,009	-	-	-	284,009	-
Total rate mitigation	<u>156,551,361</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>156,551,361</u>	<u>-</u>
Construction funds:						
Cash and cash equivalents	2,928,242	878,776	5,994,446	2,383,460	12,184,924	2,103,414
Investments	589,323	480,328	3,641,158	1,754,370	6,465,179	1,552,791
Accrued interest	1,696	1,355	10,338	4,947	18,336	4,382
Total construction funds	<u>3,519,261</u>	<u>1,360,459</u>	<u>9,645,942</u>	<u>4,142,777</u>	<u>18,668,439</u>	<u>3,660,587</u>
Capital Assets:						
Land	26,756,449	1,807,965	2,338,807	11,186,544	42,089,765	358,759
Buildings, improvements, equipment and systems	734,131,307	307,373,341	486,425,143	43,872,313	1,571,802,104	122,138,912
Construction in progress	18,805,171	7,470,389	9,077,186	149,159	35,501,905	5,114,169
Less accumulated depreciation	<u>(213,868,225)</u>	<u>(122,231,596)</u>	<u>(248,645,210)</u>	<u>(26,588,636)</u>	<u>(611,333,667)</u>	<u>(70,193,438)</u>
Net capital assets	<u>565,824,702</u>	<u>194,420,099</u>	<u>249,195,926</u>	<u>28,619,380</u>	<u>1,038,060,107</u>	<u>57,418,402</u>
Other Assets	80,402,970	-	-	-	80,402,970	-
Advance to other funds	3,896,269	-	-	-	3,896,269	-
Net pension assets	241,113	43,299	58,863	64,442	407,717	143,090
Total noncurrent assets	<u>810,435,676</u>	<u>199,219,552</u>	<u>263,306,461</u>	<u>32,826,599</u>	<u>1,305,788,288</u>	<u>61,222,079</u>
Total Assets	<u>913,728,517</u>	<u>222,137,830</u>	<u>285,346,222</u>	<u>41,157,126</u>	<u>1,462,369,695</u>	<u>125,919,013</u>
Deferred Outflows of Resources						
Deferred charges on debt refundings	274,271	202,002	348,185	131	824,589	75,912
Deferred charges on pensions	3,277,696	588,603	800,189	876,036	5,542,524	1,945,192
Deferred charges on OPEB	1,042,318	269,923	423,572	527,389	2,263,202	1,054,776
Deferred charges on derivatives	661,192	-	-	-	661,192	-
Total deferred outflows	<u>5,255,477</u>	<u>1,060,528</u>	<u>1,571,946</u>	<u>1,403,556</u>	<u>9,291,507</u>	<u>3,075,880</u>

The notes to the financial statements are an integral part of this statement.

City of Garland, Texas
Proprietary Funds
Statement of Net Position
September 30, 2018

	Business-type Activities					Governmental Activities
	Electric	Water	Sewer	Other Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
LIABILITIES						
Current liabilities:						
<i>Payable from current assets</i>						
Accounts payable and accrued liabilities	\$ 17,942,189	\$ 3,465,019	\$ 619,667	\$ 544,311	\$ 22,571,186	\$ 3,691,515
Due to other funds	2,452	-	-	-	2,452	1,826,121
Insurance claims payable	-	-	-	-	-	5,488,341
Accrued interest payable:						
General obligation bonds	69,863	10,452	34,954	83	115,352	30,367
Certificates of obligation	915,751	-	-	100,901	1,016,652	105,484
Revenue bonds	1,100,724	629,681	661,221	-	2,391,626	-
Customer deposits	250,000	-	-	-	250,000	15,897,745
General obligation bonds	5,115,000	615,000	1,945,000	-	7,675,000	485,000
Certificates of obligation	14,040,000	-	-	3,450,000	17,490,000	1,270,000
Revenue bonds	11,150,000	6,360,000	8,750,000	-	26,260,000	-
Compensated absences	1,594,394	265,926	386,774	317,986	2,565,080	864,595
Derivative instruments-energy risk management	110,238	-	-	-	110,238	-
Total current liabilities	<u>52,290,611</u>	<u>11,346,078</u>	<u>12,397,616</u>	<u>4,413,281</u>	<u>80,447,586</u>	<u>29,659,168</u>
Long-term liabilities:						
<i>Payable from restricted assets</i>						
Accounts payable	2,984,290	705,089	1,165,912	11,869	4,867,160	12,132
Retainage payable	-	-	919,800	-	919,800	-
Escrow payable	254,675	-	-	-	254,675	-
Total payable from restricted assets	<u>3,238,965</u>	<u>705,089</u>	<u>2,085,712</u>	<u>11,869</u>	<u>6,041,635</u>	<u>12,132</u>
Advances from other funds	-	-	-	-	-	3,896,269
Revenue bonds payable (net of unamortized premium)	199,210,928	99,662,059	102,111,029	-	400,984,016	-
Certificates of obligation (net of unamortized premium)	134,982,448	-	-	10,143,169	145,125,617	16,724,195
General obligation bonds (net of unamortized premium and defeased bond costs)	6,204,535	1,126,016	3,806,542	16,930	11,154,023	5,070,243
Commercial paper	159,440,000	-	-	-	159,440,000	-
Insurance claims payable	-	-	-	-	-	6,349,054
Net OPEB liability	9,555,483	2,474,527	3,883,104	4,834,846	20,747,960	9,669,692
Compensated absences	367,553	7,235	84,399	68,095	527,282	96,232
Derivative instruments-energy risk management	550,954	-	-	-	550,954	-
Total other liabilities	<u>510,311,901</u>	<u>103,269,837</u>	<u>109,885,074</u>	<u>15,063,040</u>	<u>738,529,852</u>	<u>41,805,685</u>
Total Liabilities	<u>565,841,477</u>	<u>115,321,004</u>	<u>124,368,402</u>	<u>19,488,190</u>	<u>825,019,073</u>	<u>71,476,985</u>
Deferred inflows of Resources						
Deferred charges on debt refundings	14,296	1,916	10,712	-	26,924	3,743
Deferred charges on pensions	4,376,940	786,003	1,068,549	1,169,833	7,401,325	2,597,552
Deferred charges on OPEB	144,039	37,301	58,534	72,881	312,755	145,760
Total deferred inflows of resources	<u>4,535,275</u>	<u>825,220</u>	<u>1,137,795</u>	<u>1,242,714</u>	<u>7,741,004</u>	<u>2,747,055</u>
NET POSITION						
Net investment in capital assets	179,751,762	87,312,394	140,143,585	20,081,385	427,289,126	37,517,419
Restricted for:						
Debt service	-	3,395,695	4,405,730	-	7,801,425	-
Rate mitigation	156,551,361	-	-	-	156,551,361	-
Unrestricted	12,304,119	16,344,045	16,862,656	1,748,393	47,259,213	17,253,434
Total net position	<u>\$ 348,607,242</u>	<u>\$ 107,052,134</u>	<u>\$ 161,411,971</u>	<u>\$ 21,829,778</u>	<u>638,901,125</u>	<u>\$ 54,770,853</u>
Some amounts reported for business-type activities in the Statement of Net Position are different because certain internal service fund assets and liabilities are included with business-type activities.					<u>17,861,808</u>	
Net position of business type activities					<u>\$ 656,762,933</u>	

The notes to the financial statements are an integral part of this statement.

City of Garland, Texas
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended September 30, 2018

	Business-type Activities					Governmental Activities
	Electric	Water	Sewer	Other Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES:						
Charges for services	\$ 287,169,337	\$ 76,184,876	\$ 43,902,151	\$ 29,012,084	\$ 436,268,448	\$ 63,029,248
Insurance premiums	-	-	-	-	-	37,716,586
Other	1,353,744	349,046	105,850	291,749	2,100,389	4,932,332
Total Operating Revenues	288,523,081	76,533,922	44,008,001	29,303,833	438,368,837	105,678,166
OPERATING EXPENSES:						
Salaries and benefits	23,986,819	4,935,836	8,970,213	10,231,940	48,124,808	22,082,602
Demand charges	38,599,035	-	-	-	38,599,035	-
Amortization of other assets	6,912,642	-	-	-	6,912,642	-
Energy and fuel purchases	129,119,453	-	-	-	129,119,453	-
Water purchases	-	37,084,695	-	-	37,084,695	-
Landfill fees	-	-	-	3,085,670	3,085,670	-
Maintenance, repairs, and other	10,758,527	5,160,633	7,706,116	7,922,054	31,547,330	21,684,562
Insurance and other expenses	3,142,116	550,472	730,755	650,905	5,074,248	-
General and administrative	16,592,158	5,726,870	5,447,597	2,545,919	30,312,544	11,118,267
Capitalized general and administrative	-	(193,518)	(385,489)	-	(579,007)	-
Premiums	-	-	-	-	-	6,896,945
Claims	595,038	151,237	238,951	278,219	1,263,445	25,711,163
Administrative services	-	-	-	-	-	1,034,257
Depreciation	16,620,227	8,200,191	13,166,501	4,167,404	42,154,323	8,066,533
Total Operating Expenses	246,326,015	61,616,416	35,874,644	28,882,111	372,699,186	96,594,329
Total Operating Income	\$ 42,197,066	\$ 14,917,506	\$ 8,133,357	\$ 421,722	\$ 65,669,651	\$ 9,083,837
NONOPERATING REVENUES (EXPENSES)						
Gain (loss) on disposal of capital assets	\$ (2,824,104)	\$ -	\$ -	\$ 206,000	\$ (2,618,104)	\$ 127,218
Gain on derivative instruments	(65,125)	-	-	-	(65,125)	-
Investment income	2,559,172	201,851	373,983	81,272	3,216,278	609,355
Interest expense	(12,267,269)	(3,048,685)	(2,808,495)	(187,357)	(18,311,806)	(915,745)
Income (loss) before transfers and contributions	29,599,740	12,070,672	5,698,845	521,637	47,890,894	8,904,665
Capital contributions	108,784	2,319,419	1,172,220	-	3,600,423	-
TRANSFERS						
Transfers in	518,040	-	-	1,237,750	1,755,790	847,639
Transfers out	(27,883,938)	(7,022,137)	(5,943,620)	(1,300,987)	(42,150,682)	(766,128)
Net transfers	(27,365,898)	(7,022,137)	(5,943,620)	(63,237)	(40,394,892)	81,511
NET INCOME (LOSS)	2,342,626	7,367,954	927,445	458,400	11,096,425	8,986,176
Net position, beginning of year	352,983,247	101,431,712	163,214,642	24,558,590	642,188,191	51,221,697
Cumulative effect of change in accounting principle	(6,718,631)	(1,747,532)	(2,730,116)	(3,187,212)	(14,383,491)	(5,437,020)
Net position, beginning of year, restated	346,264,616	99,684,180	160,484,526	21,371,378	627,804,700	45,784,677
Net position, end of year	\$ 348,607,242	\$ 107,052,134	\$ 161,411,971	\$ 21,829,778	638,901,125	\$ 54,770,853

Some amounts reported for business-type activities in the Statement of Activities are different because the net revenue of certain internal service funds is reported with business type activities

3,345,663

Change in net position of business-type activities

\$ 14,442,088

The notes to the financial statements are an integral part of this statement.

City of Garland, Texas
Proprietary Funds
Statement of Cash Flows
For the Year Ended September 30, 2018

	Business-type Activities					Governmental Activities
	Electric	Water	Sewer	Other Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash flows from operating activities:						
Cash received from customers	\$ 275,017,503	\$ 74,921,939	\$ 49,107,003	\$ 28,795,973	\$ 427,842,418	\$ 101,662,696
Cash received for customer deposit	1,544	-	-	-	1,544	725,097
Cash paid to suppliers	(197,366,059)	(48,226,868)	(13,588,422)	(14,370,805)	(273,552,154)	(66,168,027)
Cash paid to employees for services	(23,555,498)	(4,850,085)	(8,794,560)	(10,116,734)	(47,316,877)	(21,798,065)
Other operating revenues	1,353,744	349,046	105,850	291,748	2,100,388	4,932,332
Net cash provided by operations	55,451,234	22,194,032	26,829,871	4,600,182	109,075,319	19,354,033
Cash flows from noncapital financing activities:						
Due from other funds increase	-	(15,562)	(12,598)	-	(28,160)	(31,662)
Due to other funds increases increase	2,452	-	-	29,758	32,210	54,323
Due from other governments (increase) decrease	609,323	-	-	(776,884)	(167,561)	-
Transfers in	518,040	-	-	1,237,750	1,755,790	847,639
Transfers out	(27,883,938)	(7,022,137)	(5,943,620)	(1,300,987)	(42,150,682)	(766,128)
Net cash provided by (used for) noncapital financing activities	(26,754,123)	(7,037,699)	(5,956,218)	(810,363)	(40,558,403)	104,172
Cash flows from capital and related financing activities:						
Proceeds from sales of:						
Certificates of obligation	-	-	-	4,180,000	4,180,000	410,000
Refunding bonds	31,985,000	24,155,000	24,155,000	-	80,295,000	-
Premium on issuance of debt	3,581,148	3,584,519	3,584,519	338,760	11,088,946	45,693
Commercial paper	188,865,000	(19,000,000)	(21,000,000)	-	148,865,000	-
Acquisition and construction of capital assets	(78,462,652)	(9,951,527)	(10,363,158)	(4,669,757)	(103,447,094)	(8,000,370)
Principal paid on:						
Revenue bonds	(10,640,000)	(5,745,000)	(8,160,000)	-	(24,545,000)	-
Certificates of obligation	(12,415,000)	-	-	(2,810,000)	(15,225,000)	(2,080,000)
General obligation bonds	(5,825,000)	(760,000)	(2,155,000)	-	(8,740,000)	(250,000)
Payment to escrow agent	(5,925,484)	-	-	-	(5,925,484)	-
Commercial paper	(152,705,000)	-	-	-	(152,705,000)	-
Interest paid on:						
Revenue bonds	(8,095,963)	(3,296,532)	(3,737,526)	-	(15,130,021)	-
Certificates of obligation	(7,460,275)	-	-	(463,433)	(7,923,708)	(838,940)
General obligation bonds	(692,374)	(99,748)	(326,226)	(650)	(1,118,998)	(240,619)
Commercial paper	(3,715,609)	(427,016)	(432,225)	-	(4,574,850)	-
Bond issue expense	73,899	-	-	-	73,899	-
Loss on derivative instruments	(65,125)	-	-	-	(65,125)	-
Contributions	-	142,280	46,099	-	188,379	-
Proceeds from sales of assets	-	-	-	206,000	206,000	155,032
Net cash used for capital and related financing activities	(61,497,435)	(11,398,024)	(18,388,517)	(3,219,080)	(94,503,056)	(10,799,204)

The notes to the financial statements are an integral part of this statement.

City of Garland, Texas
Proprietary Funds
Statement of Cash Flows
For the Year Ended September 30, 2018

	Business-type Activities					Governmental Activities
	Electric	Water	Sewer	Other Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash flows from investing activities:						
Purchase of investment securities	(62,619,257)	(5,705,394)	(8,999,102)	(2,951,817)	(80,275,570)	(18,240,134)
Proceeds from sale and maturities of investment securities	131,430,159	8,005,840	11,982,712	3,723,956	155,142,667	20,895,953
Interest received on investments	2,485,296	198,541	366,044	79,113	3,128,994	589,024
Net cash provided by investing activities	<u>71,296,198</u>	<u>2,498,987</u>	<u>3,349,654</u>	<u>851,252</u>	<u>77,996,091</u>	<u>3,244,843</u>
Net increase in cash and cash equivalents	38,495,874	6,257,296	5,834,790	1,421,991	52,009,951	11,903,844
Cash and cash equivalents at beginning of the year	69,529,914	5,902,958	11,899,285	3,633,723	90,965,880	22,920,650
Cash and cash equivalents at end of the year	<u>\$ 108,025,788</u>	<u>\$ 12,160,254</u>	<u>\$ 17,734,075</u>	<u>\$ 5,055,714</u>	<u>\$ 142,975,831</u>	<u>\$ 34,824,494</u>
Reconciliation to Statement of Net Position						
Cash and cash equivalents	\$ 25,264,830	\$ 7,885,783	\$ 9,332,259	\$ 2,672,254	\$ 45,155,126	\$ 32,721,080
Revenue bond cash and cash equivalents	-	3,395,695	2,407,370	-	5,803,065	-
Rate mitigation cash and cash equivalents	79,832,716	-	-	-	79,832,716	-
Construction fund cash and cash equivalents	2,928,242	878,776	5,994,446	2,383,460	12,184,924	2,103,414
Total cash and cash equivalents	<u>\$ 108,025,788</u>	<u>\$ 12,160,254</u>	<u>\$ 17,734,075</u>	<u>\$ 5,055,714</u>	<u>\$ 142,975,831</u>	<u>\$ 34,824,494</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities						
Operating income	\$ 42,197,066	\$ 14,917,506	\$ 8,133,357	\$ 421,722	\$ 65,669,651	\$ 9,083,837
Adjustments:						
Depreciation expense	16,620,227	8,200,191	13,166,501	4,167,404	42,154,323	8,066,533
Amortization of other assets	6,912,642	-	-	-	6,912,642	-
Change in allowance for uncollectible accounts	4,738	467	15,253	13,142	33,600	-
Change in assets and liabilities						
Decrease in pension related deferred outflows	6,346,482	1,139,689	1,549,377	1,696,235	10,731,783	3,766,401
Increase in OPEB related deferred outflows	(1,042,318)	(269,923)	(423,572)	(527,389)	(2,263,202)	(1,054,776)
(Increase) decrease in accounts receivable	(12,156,572)	(1,263,404)	5,189,599	(229,253)	(8,459,630)	916,861
Increase in inventory	(79,510)	-	-	(5,165)	(84,675)	(33,043)
Increase in net pension assets	(241,113)	(43,299)	(58,863)	(64,442)	(407,717)	(143,090)
Increase in other assets	(551,550)	-	-	-	(551,550)	-
Decrease in net pension liability	(9,238,541)	(1,659,040)	(2,255,420)	(2,469,200)	(15,622,201)	(5,482,733)
(Increase) decrease in other prepaid expense	(1,329,479)	-	-	-	(1,329,479)	37,600
Increase (decrease) in accounts payable	3,164,340	192,285	53,414	(2,522)	3,407,517	(1,849)
Increase in compensated absences	44,357	16,261	81,183	11,782	153,583	54,889
Increase in customer deposits	1,544	-	-	-	1,544	725,097
Increase (decrease) in OPEB liability	1,134,746	293,858	461,132	574,154	2,463,890	1,148,309
Increase in insurance claims payable	-	-	-	-	-	35,167
Increase in pension related deferred inflows	3,520,136	632,140	859,376	940,833	5,952,485	2,089,070
Increase in OPEB related deferred inflows	144,039	37,301	58,534	72,881	312,755	145,760
Total adjustments	<u>13,254,168</u>	<u>7,276,526</u>	<u>18,696,514</u>	<u>4,178,460</u>	<u>43,405,668</u>	<u>10,270,196</u>
Net cash provided by operating activities	<u>\$ 55,451,234</u>	<u>\$ 22,194,032</u>	<u>\$ 26,829,871</u>	<u>\$ 4,600,182</u>	<u>\$ 109,075,319</u>	<u>\$ 19,354,033</u>
Noncash investing, capital and financing activities:						
Contributions from developers	108,784	2,098,607	1,003,584	-	3,210,975	-
Increase in fair market value of investments	187,648	26,035	33,247	18,335	265,265	124,621
Change in restricted accounts payable	(6,718,948)	238,816	(69,847)	(159,005)	(6,708,984)	(45,995)

The notes to the financial statements are an integral part of this statement.

**City of Garland, Texas
Statement of Fiduciary Net Position
Fiduciary Funds
September 30, 2018**

	Other Post Employment Benefits Trust Fund
Assets	
Investments:	
Equity mutual funds	\$ 2,956,533
Fixed income mutual funds	2,691,101
Money market fund	11,885
Total investments	5,659,519
Total assets	\$ 5,659,519
Net Position	
Held in trust for other post employment benefits and other purposes	5,659,519
Total net position	\$ 5,659,519

The notes to the financial statements are an integral part of this statement.

City of Garland, Texas
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended September 30, 2018

	Other Post Employment Benefits Trust Fund
Additions	
Earnings from investments	\$ 303,211
Employer contributions	5,024,715
Total additions	5,327,926
 Deductions	
Administrative expenses	30,018
Payments to beneficiaries	3,774,715
Total deductions	3,804,733
Change in net position	1,523,193
Net position, beginning of year	4,136,326
Net position, end of year	\$ 5,659,519

The notes to the financial statements are an integral part of this statement.

City of Garland, Texas Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City is a municipal corporation governed by an elected mayor and eight-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

Discretely Presented Component Unit

The Garland Housing Finance Corporation (GHFC) was organized to finance the cost of residential ownership and development that will provide decent, safe and sanitary housing for residents of the City at affordable prices. GHFC is governed by a board of directors that are appointed by and serve at the discretion of the City Council. GHFC is reported as a proprietary entity and maintains their accounts on an accrual basis of accounting. On October 1, 2012, GHFC hired an outside accounting firm to conduct their bookkeeping and accounting. The financial information for GHFC is included in the statements for the period of January 1, 2017 through December 31, 2017. Complete separate December 31, 2017 financial statements for GHFC may be obtained from the City.

Blended Component Unit

The Garland Foundation for Development (GFFD) was organized to promote economic development within the City of Garland. The City Council serves as the board members for GFFD and the Assistant City Manager is the Executive Director. GFFD is reported as a blended component unit of the non-major enterprise golf fund and the capital project fund.

In 2018, The City of Garland created the Garland Public Facility Corporation (GPFC) as a public facility corporation under Chapter 303 of the Texas Local Development Code. The GPFC was organized exclusively for the purpose of assisting the City in financing, refinancing, or providing public facilities. The Mayor and City Council serves as the board members of the GPFC. GPFC is reported as a blended component unit of the non-major governmental funds.

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 on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. 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 support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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 instead as general revenues.

City of Garland, Texas
Notes to the Financial Statements (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers sales tax revenue to be available if they are collected within 30 days of the end of the current fiscal period and all other revenues available if they are collected within 60 days of the end of the annual fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, actuarially determined pension and OPEB expenses, and claims and judgments, are recorded only when payment is due. Grant revenues are recognized as revenues when all eligibility requirements are met.

Property taxes, franchise fees, licenses, mowing liens, sales taxes, EMS fees, court fines, and earnings on investments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent they are available as defined above. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The Capital Projects Fund accounts for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

City of Garland, Texas
Notes to the Financial Statements (Continued)

The City reports the following major proprietary funds:

The Electric Fund accounts for the resources and expenses associated with the administration, operation, maintenance, new construction, financing and related debt service to provide electric service for the residents of the City.

The Water Fund accounts for the resources and expenses associated with the administration, operation, maintenance, new construction, financing and related debt service to provide water service for the residents of the City.

The Sewer Fund accounts for the resources and expenses associated with the administration, operation, maintenance, new construction, financing and related debt service to provide wastewater treatment service for the residents of the City.

Additionally, the City reports the following fund categories:

Special revenue funds account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. These specific revenue sources are Community Development Block Grants, Housing Assistance Grants, Neighborhood Services Grants and Funding, Hotel/Motel Tax, Impact Fees, Landfill Closure Funding, Police Training, Substandard Perimeter Road Funding, Narcotic Seizure Funding, and Tax Increment Finance funds.

The City's nonmajor enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the City is that costs of providing goods and services to the general public on a continuing basis will be financed or recovered through user charges. These funds are the Golf Fund, the Heliport Fund, the Storm Water Management Fund, the Parks Performance Fund, and the Sanitation Fund.

Internal service funds account for group health, self-insurance, long-term disability, fleet services, vehicle replacement, information technology, facilities management, warehouse, and customer services to other departments of the City on a cost reimbursement basis.

The Other Post-Employment Benefits trust fund accounts for the activities of the trust fund which accumulates resources for OPEB related benefits, and is excluded from the government-wide financial statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's electric, water, sewer, sanitation, and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

City of Garland, Texas
Notes to the Financial Statements (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer systems. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net position or equity

1. *Deposits and investments*

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes and the City Council approved investment policy authorize the City to invest in obligations of the Agencies and Instrumentalities of the U.S. Treasury, commercial paper, FDIC insured Certificates of Deposit, repurchase agreements, reverse repurchase agreements, SEC registered no-load money market mutual funds, and investment pools.

The deposits and investments of the OPEB trust fund are held separately from those of other City funds by an outside trustee appointed by the City.

Investments for the primary government, as well as for its component units, are reported at fair value. The Texpool and TexStar investment pools operate in accordance with appropriate State laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

City of Garland, Texas

Notes to the Financial Statements (Continued)

All trade and property tax receivables are shown net of an allowance for uncollectibles. The allowance for uncollectible accounts for utility billing is estimated based on collection experience. All other allowance for uncollectible accounts is based on accounts outstanding in excess of 360 days of the invoice date and collection experience. The property tax receivable allowance is based on the average collection rate of delinquent taxes over the last five years.

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. Assessed values are established by the Dallas Central Appraisal District at 100% of estimated market value. Property taxes attach an enforceable lien on property as of January 1. Taxes are due immediately following the October 1 levy date and are considered delinquent after January 31 of the following year. Penalty and interest are charged at 7% on delinquent taxes beginning February 1 and increases each month to 18% on July 1. After all collection efforts have failed, the City files suit to collect the delinquent taxes.

In Texas, countywide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every five years; however, the City may, at its own expense, require annual reviews by the appraisal district through various appeals and, if necessary, legal action. Under this system the City sets tax rates on property within the City. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year.

3. *Inventories and prepaid items*

All inventories are valued at average cost and consist of expendable supplies held for consumption or the construction of plant and equipment. Inventories are accounted for under the consumption method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. *Restricted assets*

Certain proceeds of the City's general obligation bonds, certificates of obligation, and revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet or statement of net position because their use is limited by applicable bond covenants or they are maintained in separate bank accounts due to City Charter requirements. The "rate mitigation" account is used to report resources set aside to subsidize potential deficiencies from Electric Fund operations that could adversely affect rates that are charged to customers. The "revenue bond construction" accounts are used to report those proceeds of revenue bond issuances that are restricted for use in construction of assets.

City of Garland, Texas
Notes to the Financial Statements (Continued)

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. Capital assets are defined by the City as tangible or intangible assets used in operations with an initial useful life in excess of one year. Capital asset values are established on a department by department basis where the initial asset cost is \$5,000 and above.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount. As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value for buildings excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond 40 years. The reported value for infrastructure includes all upgrades and is depreciated over a useful life of 15-50 years. In the case of contributed assets, the City values these capital assets at the acquisition value of the item at the date of its contribution.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capital value of the assets constructed. The total interest expense by the City during the current year was \$28,934,094. Of this amount, \$4,005,373 was included as part of the cost of capital assets under construction in connection with electric, water, and sewer construction projects.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15 – 40
Improvements other than buildings	5 – 15
Equipment	2 – 10
Systems and Infrastructure	15 – 50

6. Compensated absences

It is the City’s policy to permit employees to accumulate earned but unused vacation, compensatory time, and sick pay benefits. Employees are reimbursed upon termination for accumulated vacation and only non-exempt employees are reimbursed for compensatory time. Employees are not reimbursed upon termination for accumulated sick leave except for police and firefighters who are reimbursed up to a maximum of 90 days accumulated sick leave. The liabilities for these amounts are accrued as they are incurred in the government-wide and proprietary fund financial statements.

City of Garland, Texas
Notes to the Financial Statements (Continued)

7. Long-term obligations

In the government-wide financial statements, and proprietary funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized as an expense in the period incurred.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

8. Classifications of Fund balance

Fund balances for governmental funds are reported in classifications that demonstrate the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The governmental fund classifications are as follows:

Nonspendable – The portion of fund balance that cannot be spent because it is either (a) not in spendable form, such as inventories and prepaid items, or (b) legally or contractually required to be maintained intact.

Restricted – The portion of fund balance that is restricted for specific purposes due to constraints imposed by creditors, grantors, contributors, or laws and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed – The portion of fund balance that can only be used for specific purposes by the City's highest level of decision-making authority, the City Council, and are imposed by the City Council through an ordinance. Once adopted, the limitation imposed by the ordinance remains in place until an ordinance is imposed to remove or revise the limitation.

Assigned – The portion of the fund balance that is constrained by the City's intent for specific purposes, but are not restricted or committed. In fund balance policy, the City Council delegates authority to the Director of Finance or the Director of Finance's designee to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriation in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Unassigned – The portion of the fund balance that is not restricted, committed, or assigned to specific purposes. The General Fund is the only fund that reports a positive unassigned funds balance amount. In other governmental funds, it is not appropriate to report a positive unassigned fund balance amount. However, if expenditures incurred for specific purposes exceed the amounts that are not restricted, committed, or assigned to this purpose, it may be necessary to report a negative fund balance in that fund.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

City of Garland, Texas
Notes to the Financial Statements (Continued)

In order to remain financially strong and provide a framework for prudent financial management, the City maintains a minimum unassigned fund balance goal in the General fund of 30 days of budget-based operating expenditures.

Fund balances for governmental activities as of September 30, 2018 are:

<i>Fund Balance</i>	<i>General Fund</i>	<i>Debt Service</i>	<i>Capital Projects</i>	<i>Other Nonmajor Governmental Funds</i>	<i>Total Governmental Funds</i>
Restricted:					
General government	\$ 1,344,990	\$ -	\$ -	\$ 3,728,181	\$ 5,073,171
Debt service	-	6,556,425	-	-	6,556,425
Parks construction	-	-	581,433	-	581,433
Streets and drainage	-	-	2,222,061	-	2,222,061
Public facilities	-	-	38,421,468	-	38,421,468
Housing assistance	-	-	-	2,113,317	2,113,317
Public safety	1,316,905	-	-	310,362	1,627,267
Total Restricted	<u>2,661,895</u>	<u>6,556,425</u>	<u>41,224,962</u>	<u>6,151,860</u>	<u>56,595,142</u>
Committed:					
General government	1,915,702	-	-	-	1,915,702
Public works and infrastructure	9,484,251	-	-	8,155,937	17,640,188
Total Committed	<u>11,399,953</u>	<u>-</u>	<u>-</u>	<u>8,155,937</u>	<u>19,555,890</u>
Assigned:					
General government	3,230,000	-	9,755,580	-	12,985,580
Total Assigned	<u>3,230,000</u>	<u>-</u>	<u>9,755,580</u>	<u>-</u>	<u>12,985,580</u>
Unassigned	17,641,489	-	-	(24,480)	17,617,009
Total fund balance	<u>\$ 34,933,337</u>	<u>\$ 6,556,425</u>	<u>\$ 50,980,542</u>	<u>\$ 14,283,317</u>	<u>\$ 106,753,621</u>

9. Fund net position

In the fund financial statements, proprietary funds report restricted net position for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

City of Garland, Texas
Notes to the Financial Statements (Continued)

10. Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net position and balance sheet will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position/fund balance that applies to a future period and will not be recognized as an outflow of resources (expenses/expenditure) until then. The City has the following items that qualify for reporting in this category:

- Deferred charges on refunding – The deferred charge 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 refunding or the refunded debt.
- Pension and OPEB contributions subsequent to measurement date – The deferred charges result from contributions made after the measurement date of the plans to the current fiscal year end. These charges will be recognized in the subsequent fiscal year end.
- Difference in projected and actual earnings – The difference is deferred and will be amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.
- Difference in assumption changes – difference is deferred and amortized over estimated average remaining lives of all members determined as of measurement date.

In addition to liabilities, the statement of net position and balance sheet 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/fund balance that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The City has the following items that qualify for reporting in this category:

- Fair value of energy risk derivatives – The deferred charge represents fuel swap hedging activity and is calculated as the difference between the closing futures price at the end of the reporting period, and the futures price at the time the positions were established.
- Deferred charges on refunding – The deferred charge results from the difference in carry value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunding or the refunded debt.
- Difference in expected and actual economic experience – The difference is deferred and will be amortized as a component of pension and OPEB expense over the estimated average remaining lives of all members determined as of measurement date.

11. New accounting principles

The City implemented the following new GASB standards during the fiscal year ended September 30, 2018:

The GASB has issued Statement No. 74, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”* (“GASB 74”), which will be effective in fiscal year 2018. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose financial statements. The adoption of Statement No. 74 had no impact on the City’s financial statements. The City’s OPEB plan year end is December 31.

City of Garland, Texas
Notes to the Financial Statements (Continued)

The GASB has issued Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension” (“GASB 75”), which will be effective in fiscal year 2018. The objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

With the implementation of Statement No. 75, the City’s government-wide and proprietary fund financial statements were restated to reflect the beginning net OPEB liability, deferred outflows and inflows of resources and the recognition of OPEB expense and contributions made between the start of the measurement period and the City’s prior fiscal year. The restatement to beginning net position is noted below and reflected on the statements:

	Government-wide		Fund Level	
	Governmental Activities	Business-type Activities	Statement of Revenues, Expense and Changes in Net Position – Proprietary Funds	
			Business-type	Internal Services
Net position at 10/01/17	\$ 186,449,946	\$ 656,704,336	\$ 642,188,191	\$ 51,221,697
Change in reporting for OPEB	(33,096,468)	(14,383,491)	(14,383,491)	(5,437,020)
Net position restated at 10/01/17	<u>\$ 153,353,478</u>	<u>\$ 642,320,845</u>	<u>\$ 627,804,700</u>	<u>\$ 45,784,677</u>

The GASB has issued Statement No. 81, “Irrevocable Split-Interest Agreements” (“GASB 81”), which will be effective in fiscal year 2018. The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The adoption of Statement No. 81 had no impact on the City’s financial statements.

The GASB has issued Statement No. 85, “Omnibus 2017” (GASB 85), which will be effective in fiscal year 2018. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. The City implemented this Statement in the current fiscal year.

The GASB has issued Statement No. 86, “Certain Debt Extinguishment Issues” (GASB 86), which will be effective in fiscal year 2018. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The adoption of Statement No. 86 had no impact on the City’s financial statements.

City of Garland, Texas
Notes to the Financial Statements (Continued)

GASB issued the following new accounting standards that are expected to be implemented by the City in future years:

The GASB has issued Statement No. 83, *“Certain Asset Retirement Obligations”* (“GASB 83”), which will be effective in fiscal year 2019. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. The City has not yet evaluated the impact of the implementation of this standard.

The GASB has issued Statement No. 84, *“Fiduciary Activities”* (“GASB 84”), which will be effective in fiscal year 2020. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The City has not yet evaluated the impact of the implementation of this standard.

The GASB has issued Statement No. 87 *“Leases”* (GASB 87), which will be effective in fiscal year 2021. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance of consistency of information about governments’ leasing activities. The City has not yet evaluated the impact of the implementation of this standard.

The GASB has issued Statement No. 89, *“Accounting for Interest Cost Incurred before the End of a Construction Period”* (“GASB 89”), which will be effective in fiscal year 2020. The objective of this statement is to (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This City is currently evaluating the impact of this statement.

The GASB has issued Statement No. 90, *“Majority Equity Interest – an amendment of GASB Statements No. 14 and No. 61”* (“GASB 90”), which will be effective in fiscal year 2020. The objective of this statement is to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The City has not yet evaluated the impact of the implementation of this standard.

City of Garland, Texas
Notes to the Financial Statements (Continued)

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$237,650,000 difference is as follows:

General Obligation bonds – General Government portion	\$156,905,000
Certificates of Obligation – General Government portion	<u>80,745,000</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at net position – governmental activities	<u>\$237,650,000</u>

The portion of Certificates of Obligation amounting to \$17,655,000 and a portion of General Obligation amounting to \$5,000,000 was issued for Internal Service fund projects.

City of Garland, Texas
Notes to the Financial Statements (Continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balance includes reconciliation between *net changes in fund balances – total governmental funds* and *change in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation states that “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$2,054,614 difference are as follows:

Debt issued or incurred:	
Issuance of certificate of obligation – Governmental Funds	\$ (25,365,000)
Net premium on issuance of CO bonds	(3,067,125)
Principal repayments:	
General obligation debt	19,055,000
Certificates of obligation	5,730,000
Amortization of bond premium	3,891,562
Change in landfill closure liability	(907,807)
Change in compensated absences liability	<u>(1,391,244)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ (2,054,614)</u>

City of Garland, Texas
Notes to the Financial Statements (Continued)

Another element of that reconciliation states that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.” The details of this \$29,942,681 difference are as follows:

Capital outlays	\$ 46,444,414
Developers contributions	5,858,733
General Fund expense outlays	11,310,621
Depreciation expense	(29,656,261)
CIP expense outlays	(288,777)
Proceeds from disposal of assets	(68,888)
Gain on disposals of assets	<u>(136,145)</u>
<i>Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities</i>	
	<u>\$ 33,463,697</u>

III. Stewardship, compliance, and accountability

Deficit fund equity

The Self-Insurance Fund deficit of \$1,296,435 is a result of an accrual of claims incurred but not reported of \$6,500,950. This accrual was made on the basis of an actuarial analysis completed in 2018. This fund is managed and funded on a modified accrual basis. Therefore, this fund will continue to report a deficit.

The Long-Term Disability Insurance Fund deficit of \$1,409,569 is the result of an accrual of claims incurred but not reported of \$3,112,604. This accrual was made on the basis of an actuarial analysis completed in 2018. This fund is managed and funded on a modified accrual basis. Therefore, this fund will continue to report a deficit.

The Facilities Management Fund deficit of \$966,264 is due to the implementation of GASB 75 which required a restatement of beginning net position of \$760,575 and reporting an actuarial determined OPEB expense of \$32,974. The fund is managed on a modified accrual basis. Charges to other operating funds are adjusted annually to meet current operating needs.

The Warehouse Fund deficit of \$290,171 is due to the implementation of GASB 75 which required a restatement of beginning net position of \$205,691 and reporting an actuarial determined OPEB expense of \$9,420. The fund is managed on a modified accrual basis. Charges to other operating funds are adjusted annually to meet current operating needs.

City of Garland, Texas
Notes to the Financial Statements (Continued)

IV. Detailed notes on all funds

A. Deposits and investments

Deposits. State statutes and the City's investment policy require that all uninsured deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies or instrumentalities that have a market value of not less than the principal amount of the deposits. The City's deposits were fully insured or collateralized as required by state statutes as of September 30, 2018. Collateral was held by the Federal Reserve Bank in the City name under a joint safekeeping agreement with JP Morgan Chase Bank. The market value of the collateral at the close of the fiscal year was \$18,000,000.

As of September 30, 2018, the carrying amount of the City's deposits was \$4,683,155 and the bank balance was \$7,019,161. These balances include the City's blended component unit (Garland Foundation for Development). On September 30, 2018, the City's bank balance and the balance for GFFD was fully collateralized. Bank balances for the City's discretely presented component unit (Garland Housing Finance Corporation) were fully collateralized and the carrying value of the component unit's deposits was \$1,252,879.

Investments. State statutes, the City's Investment Policy, and the City Statement of Investment Strategies govern the investments of the City. The City is authorized to invest in obligations of the U.S. Government and its agencies and instrumentalities, federal agency discount-amortizing notes, federal agency coupon securities, managed pool accounts and Certificates of Deposit.

As of September 30, 2018, the City had the following cash equivalents and investments:

<u>Investment Type</u>	<u>Fair Value</u>		<u>% of portfolio</u>	<u>WAM</u>	<u>Rating</u>	<u>Rating Agency</u>
	<u>Book Value</u>	<u>Level 2</u>				
Federal Farm Credit Bank	\$ 41,088,060	\$ 40,823,362	9.09%	244	AA+/Aaa	S&P/Moody's
Federal Home Loan Bank	71,805,075	71,237,333	15.90%	317	AA+/Aaa	S&P/Moody's
Federal Home Loan Mortgage Corp	42,949,786	42,510,413	9.51%	404	AA+/Aaa	S&P/Moody's
Federal National Mortgage Association	24,968,087	24,782,180	5.53%	261	AA+/Aaa	S&P/Moody's
Federal Agriculture Mortgage Corp	5,000,000	4,991,670	1.11%	116	AA+/Aaa	S&P/Moody's
US Treasury	9,942,709	9,920,700	2.20%	181	AA+/Aaa	S&P/Moody's
Certificates of Deposit	6,575,406	-	1.45%	1	N/A	N/A
Investment Pools	249,386,579	-	55.21%	1	AAAm	S&P
Total investment fair value	<u>\$ 451,715,702</u>	<u>\$ 194,265,658</u>	<u>100.00%</u>	<u>132</u>		

Weighted average maturity (WAM) of the portfolio by investment type categories reflected in the previous table is stated in days. The rating agency acronyms are defined as follows: S&P-Standard & Poor's rating agency and Moody's-Moody's Investor Service.

City of Garland, Texas Notes to the Financial Statements (Continued)

Fair Value Measurement. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application* provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets and liabilities in active markets that government can access at the measurement date.
- Level 2 inputs are inputs (other than quoted prices within Level 1) that are observable for an asset and liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. For the City, all of the U.S. Government Agency securities and Municipal obligations are classified in Level 2 of the fair value hierarchy and are valued based on their relationship to benchmark quoted prices. Investment Pools and Certificates of Deposit are measured at amortized cost or net asset value and are exempt from fair value reporting.

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits at least half of the City's investment portfolio to maturities of less than five years and a WAM of three years or less. As of September 30, 2018, the WAM for all cash equivalents and investments was 132 days.

Credit risk. The risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized rating organization. The City's investments in U. S. agencies were rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service as of September 30, 2018.

The City invests in Texpool and Texstar to meet its daily liquidity needs. Texpool and Texstar are local government investment pools (LGIPs) that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. These pools qualify to be valued at amortized cost and have no limitations or restrictions on withdrawals. Texpool and Texstar are funds that allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$1.00, although this cannot be fully guaranteed. Texpool and Texstar are all rated AAAM and must maintain a dollar weighted average maturity not to exceed a 60 day limit. The City considers the holdings in these funds to have a WAM of one day, due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The City invests in Certificates of Deposit. The City has entered into custody services agreements with Stone Castle Cash Management and USA Mutuals to act as authorized agents to purchase and manage Certificates of Deposit (CDs) in depository banks. The CDs held at each bank are in the City's name and the CD cannot exceed the FDIC insurance amount. Money can be withdrawn from Stone Castle Cash Management or USA Mutuals with one day notice. The City considers the holding in these CDs to have a weighted average maturity of one day, due to the fact that these funds can be withdrawn with one day notice.

State law limits investments in commercial paper to the top two ratings issued by at least two nationally recognized credit rating agencies. It is the City's policy to limit its investments in these investment types to the top rating issued by national recognized credit rating agencies. As of September 30, 2018, the City held no direct investments in commercial paper.

City of Garland, Texas
Notes to the Financial Statements (Continued)

As of September 30, 2018, the City had the following cash equivalents and investments held by the trust agency Public Agency Retirement Services (PARS) for the OPEB trust fund:

<u>Investment Type</u>	<u>Fair Value</u>
Equity Mutual Funds	\$ 2,956,533
Fixed Income Mutual Funds	2,691,101
Money Market Fund	<u>11,885</u>
 Total investment fair value	 <u>\$ 5,659,519</u>

B. Receivables

Receivables as of year-end for the City's individual major funds and nonmajor and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Other Funds</u>	<u>Total</u>
Receivables:								
Interest	\$ 48,779	\$ 35	\$ 107,815	\$ 37,956	\$ 16,905	\$ 29,948	\$ 88,745	\$ 330,183
Taxes	1,076,601	848,711	-	-	-	-	-	1,925,312
Utility Accounts	188,927	-	-	22,224,579	8,294,153	5,558,540	3,434,163	39,700,362
Mowing Liens	943,631	-	-	-	-	-	-	943,631
EMS Accounts	1,645,033	-	-	-	-	-	-	1,645,033
Franchise Fee	1,475,547	-	-	-	-	-	-	1,475,547
Sales Tax	4,955,874	-	-	-	-	-	-	4,955,874
Wholesale & Other Accts	3,889,258	-	574,848	35,985,786	1,074,200	336,218	4,690,496	46,550,906
Assessments	16,032	-	-	-	-	-	-	16,032
Gross Receivables	<u>14,239,682</u>	<u>848,746</u>	<u>682,763</u>	<u>58,248,321</u>	<u>9,385,258</u>	<u>5,924,706</u>	<u>8,213,404</u>	<u>97,542,880</u>
Less: allowance for uncollectibles	(1,499,061)	(463,089)	-	(564,517)	(126,818)	(63,764)	(134,909)	(2,852,158)
Net total receivables	<u>\$12,740,621</u>	<u>\$ 385,657</u>	<u>\$ 682,763</u>	<u>\$ 57,683,804</u>	<u>\$ 9,258,440</u>	<u>\$ 5,860,942</u>	<u>\$ 8,078,495</u>	<u>\$ 94,690,722</u>

City of Garland, Texas
Notes to the Financial Statements (Continued)

Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *unearned revenue* in the governmental funds were as follows:

	Unearned
Parks service charges for future events	\$ 323,590
Faulkner receivable	221,097
Grant drawdowns prior to meeting all eligibility requirements	254,610
Homeowner assistance	4,060,037
Other receivables related to capital projects	3,404,085
	\$ 8,263,419

Governmental funds defer revenue recognition in connection with resources that have been earned, but not yet available. These amounts are reported as deferred inflows of resources. At the end of the current fiscal year, the various components of deferred inflows of resources in the governmental funds were as follows:

	Unavailable
Delinquent property taxes receivable (general fund)	\$ 426,500
Delinquent property taxes receivable (debt service fund)	336,220
Sales tax, mowing liens, EMS, & other receivables (general fund)	4,947,347
Other receivables related to capital projects	486,281
	\$ 6,196,348

City of Garland, Texas
Notes to the Financial Statements (Continued)

C. Capital Assets

Capital asset activity for the year ended September 30, 2018, was as follows:

Primary government

	Balance at Oct. 1, 2017	Increases	Decreases	Balance at Sept. 30, 2018
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 82,835,434	\$ 16,153,822	\$ -	\$ 98,989,256
Internal service land	221,949	136,810	-	358,759
Construction in progress	41,759,450	45,267,592	(61,415,083)	25,611,959
Internal service construction in progress	14,725,924	4,314,355	(13,926,110)	5,114,169
Total capital assets, not being depreciated	<u>139,542,757</u>	<u>65,872,579</u>	<u>(75,341,193)</u>	<u>130,074,143</u>
Capital assets, being depreciated:				
Buildings	122,039,498	5,802,167	(802,756)	127,038,909
Improvements other than buildings	490,043,621	44,156,139	-	534,199,760
Machinery and equipment	90,964,634	14,574,158	(3,605,326)	101,933,466
Internal service buildings, improvements, and equipment	105,511,779	17,390,677	(763,544)	122,138,912
Total capital assets being depreciated	<u>808,559,532</u>	<u>81,923,141</u>	<u>(5,171,626)</u>	<u>885,311,047</u>
Less accumulated depreciation for:				
Buildings	(48,717,596)	(3,134,971)	662,742	(51,189,825)
Improvements other than buildings	(372,800,879)	(19,457,066)	-	(392,257,945)
Machinery, furniture, and equipment	(63,771,585)	(7,064,224)	2,326,501	(68,509,308)
Internal service buildings, improvements, and equipment	(62,862,633)	(8,066,533)	735,728	(70,193,438)
Total accumulated depreciation	<u>(548,152,693)</u>	<u>(37,722,794)</u>	<u>3,724,971</u>	<u>(582,150,516)</u>
Total capital assets, being depreciated, net	<u>260,406,839</u>	<u>44,200,347</u>	<u>(1,446,655)</u>	<u>303,160,531</u>
Governmental activities capital assets, net	<u>\$ 399,949,596</u>	<u>\$ 110,072,926</u>	<u>\$ (76,787,848)</u>	<u>\$ 433,234,674</u>

City of Garland, Texas
Notes to the Financial Statements (Continued)

	Balance at Oct. 1, 2017	Increases	Decreases	Balance at Sept. 30, 2018
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 29,307,887	\$ 12,781,878	\$ -	\$ 42,089,765
Construction in progress	148,914,516	98,451,337	(211,863,948)	35,501,905
Total capital assets, not being depreciated	178,222,403	111,233,215	(211,863,948)	77,591,670
Capital assets, being depreciated:				
Utility buildings, improvements, and equipment	1,377,134,931	203,883,447	(9,216,276)	1,571,802,102
Total capital assets being depreciated	1,377,134,931	203,883,447	(9,216,276)	1,571,802,102
Less accumulated depreciation for:				
Utility buildings, improvements, and equipment	(575,571,514)	(42,154,323)	6,392,172	(611,333,665)
Total accumulated depreciation	(575,571,514)	(42,154,323)	6,392,172	(611,333,665)
Total capital assets, being depreciated, net	801,563,417	161,729,124	(2,824,104)	960,468,437
Business-type activities capital assets, net	\$ 979,785,820	\$272,962,339	\$(214,688,052)	\$ 1,038,060,107

City of Garland, Texas
Notes to the Financial Statements (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 1,747,547
Public safety	3,899,705
Public works	20,499,992
Culture and recreation	3,422,586
Public health	86,431
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of assets	8,066,533
Total depreciation expense – governmental activities	\$ 37,722,794
Business-type activities:	
Electric	\$ 16,620,227
Water	8,200,191
Sewer	13,166,501
Other non-major business-type activities	4,167,404
Total depreciation expense – business-type activities	\$ 42,154,323

The City has identified intangible assets related to right of way easements. These assets have been classified as non-depreciating assets and reported in the same method as land assets.

Construction commitments

The City has active construction projects as of September 30, 2018. At year-end the City's commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment
Water System	\$ 2,208,740	\$ 5,181,606
Sewer System	24,755,453	5,294,029
Electric System	3,888,402	-
Parks & Recreation	1,318,022	-
Streets and Drainage	27,285,141	9,562,526
Buildings	6,015,521	4,500,270
Total	\$ 65,471,279	\$ 24,538,431

City of Garland, Texas
Notes to the Financial Statements (Continued)

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of September 30, 2018, is as follows:

Interfund Payable	General Fund	Water	Sewer	Internal Services	Non-major Enterprise	Capital Projects	Total
General Fund	\$ -	\$ 15,562	\$ 12,598	\$ 2,745	\$ 11,189	\$ 2,217	\$ 44,311
Capital Project Fund	20,540	-	-	-	941,196	-	961,736
Electric	-	-	-	2,452	-	-	2,452
Internal Service Funds	1,826,121	-	-	-	-	-	1,826,121
Non-Major Governmental	77,975	-	-	-	-	-	77,975
	<u>\$ 1,924,636</u>	<u>\$ 15,562</u>	<u>\$ 12,598</u>	<u>\$ 5,197</u>	<u>\$ 952,385</u>	<u>\$ 2,217</u>	<u>\$ 2,912,595</u>

Interfund balances are created by short-term deficiencies in cash position in individual funds and it is anticipated that these balances will be repaid within one year or less.

The composition of advances to/from at September 30, 2018, is as follows:

Advance Payable	Electric	Total
Internal Service	\$ 3,896,269	\$ 3,896,269

Advances are created by long-term deficiencies in cash position in individual funds. It is not anticipated that these balances will be repaid within one year or less.

City of Garland, Texas
Notes to the Financial Statements (Continued)

During the year, funds were transferred from one fund to support expenditures of another fund in accordance with the authority established for the individual fund. A summary of interfund transfers by fund type is as follows:

Transfers In								
	General Fund	Debt Service Fund	Capital Project Fund	Non-major Governmental Funds	Electric	Non-major Business- Type Funds	Internal Service Funds	Total Transfers
General	\$ -	\$ -	\$ 6,606,941	\$ 259,063	\$ 247,336	\$281,000	\$ -	\$ 7,394,340
Debt Service	-	-	8,305,000	-	-	-	86,474	8,391,474
Capital Project	9,266,000	-	-	34,000	270,704	697,000	-	10,267,704
Non-major Governmental	200,000	-	-	-	-	-	-	200,000
Electric	22,286,636	230,427	4,759,654	-	-	-	607,221	27,883,938
Water	6,886,058	131,779	-	-	-	-	4,300	7,022,137
Sewer	5,807,163	133,896	-	-	-	-	2,561	5,943,620
Non-major Business-Type	981,481	172,423	-	-	-	-	147,083	1,300,987
Internal Service	19,443	16,935	470,000	-	-	259,750	-	766,128
	<u>\$45,446,781</u>	<u>\$685,460</u>	<u>\$20,141,595</u>	<u>\$ 293,063</u>	<u>\$ 518,040</u>	<u>\$1,237,750</u>	<u>\$847,639</u>	<u>\$69,170,328</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations; in-lieu-of franchise fees and ad valorem taxes transferred to the General Fund by Water, Wastewater, and Solid Waste; return on investment transferred to the General Fund from the Electric Fund; debt service transfers for payment of principal and interest as these payments are due; and other miscellaneous transfers in accordance with budgetary authorizations.

City of Garland, Texas
Notes to the Financial Statements (Continued)

E. Long-term liabilities

A summary of long-term liabilities, including current portion, for the year ended September 30, 2018, is as follows:

	Balance at Oct. 1, 2017	Increased	Retired	Balance at Sept. 30, 2018	Due within one year
Governmental activities:					
General obligation bonds	\$ 181,210,000	\$ -	\$ (19,305,000)	\$ 161,905,000	\$ 19,525,000
Certificates of obligation	80,435,000	25,775,000	(7,810,000)	98,400,000	8,585,000
Unamortized premium and deceased debt costs	17,102,003	3,112,818	(4,306,084)	15,908,737	-
Landfill post closure cost	12,556,412	907,807	-	13,464,219	-
Compensated absences	21,645,634	3,089,848	(1,643,714)	23,091,768	9,459,657
Insurance claims payable	11,802,228	26,198,394	(26,163,227)	11,837,395	5,488,341
OPEB liability	19,138,939	40,135,509	-	59,274,448	-
Net pension liability	41,830,556	-	(41,830,556)	-	-
Governmental activities Long-term debt	<u>\$ 385,720,772</u>	<u>\$ 99,219,376</u>	<u>\$ (101,058,581)</u>	<u>\$ 383,881,567</u>	<u>\$ 43,057,998</u>
Business-type activities:					
Utility System revenue bonds	\$ 346,395,000	\$ 80,295,000	\$ (30,390,000)	\$ 396,300,000	\$ 26,260,000
General obligation bonds	26,845,000	-	(8,740,000)	18,105,000	7,675,000
Certificates of obligation	167,365,000	4,180,000	(15,225,000)	156,320,000	17,490,000
Unamortized premium and deceased debt costs	34,656,605	11,120,467	(7,813,416)	37,963,656	-
Commercial Paper	163,280,000	243,865,000	(247,705,000)	159,440,000	-
Derivative instruments-energy risk management	265,113	396,079	-	661,192	110,238
Compensated absences	2,938,779	621,434	(467,851)	3,092,362	2,565,080
OPEB liability	3,900,579	16,847,381	-	20,747,960	-
Net pension liability	15,622,201	-	(15,622,201)	-	-
Business-type activities Long-term debt	<u>\$ 761,268,277</u>	<u>\$ 357,325,361</u>	<u>\$ (325,963,468)</u>	<u>\$ 792,630,170</u>	<u>\$ 54,100,318</u>

Internal Service Funds predominantly serve the governmental funds. Accordingly, long-term liabilities for those funds are included as part of the above totals for governmental activities. At year-end \$5,000,000 of general obligation bond debt, \$17,655,000 of certificates of obligation, \$960,827 of compensated absences, \$894,438 of unamortized premium costs, and \$9,669,692 of OPEB liabilities from the Internal Service Funds are included in the governmental activities general obligation bonds, certificates of obligation, compensated absences, and OPEB, liabilities. Also, for the governmental activities, compensated absences, net pension liabilities, and OPEB claims payable are generally liquidated by the General Fund.

City of Garland, Texas
Notes to the Financial Statements (Continued)

The proceeds of \$25,775,000 from the sale of certificates of obligation for governmental activities are reported as follows:

<u>Fund</u>	Certificates of Obligation	Total Bonded Debt
Capital Project Fund – proceeds from issuance of debt	\$25,365,000	\$ 25,365,000
Internal Service Fund statement of cash flows – proceeds from sale	410,000	410,000
Total	<u>\$25,775,000</u>	<u>\$ 25,775,000</u>

A summary of short-term debt transactions for the year ended September 30, 2018, is as follows:

	Balance at October 1, 2017	Increased	Retired	Balance at September 30, 2018
<u>Governmental activities:</u>				
Commercial Paper	\$ -	\$ 6,000,000	\$ -	\$ 6,000,000
Governmental activities short-term debt	<u>\$ -</u>	<u>\$ 6,000,000</u>	<u>\$ -</u>	<u>\$ 6,000,000</u>

Commercial paper notes (CP) are short-term instruments that have maturities ranging from 1 to 270 days. Interest is paid at maturity but principal is rolled forward by issuing new CP. This process continues, typically for three years, until general obligation bonds (GOs) are issued to refinance outstanding CP. Only after GOs are issued do principal payments begin. The combined amortization of the CP and the GOs is set to not exceed 20 years. Utilization of CP enables the City to lower overall debt payments due to the deferral of principal payments and by taking advantage of lower interest rates. CP is only issued as the funds are required throughout the year. Only projects that have been approved as part of a bond referendum may be funded by GO commercial paper.

City of Garland, Texas
Notes to the Financial Statements (Continued)

Long-term debt at September 30, 2018, includes the following individual issues (not including the unamortized premium costs of \$53,872,393):

	Interest Rate (%)	Issue Date	Maturity Date	Original Issue	Cumulative Retirement	Outstanding
General obligation bonds:						
2008A Refunding	4.00 – 5.00	6/15/2008	2/15/2025	\$ 57,760,000	\$ 57,760,000	\$ -
2011A Refunding	2.00 – 4.00	11/01/2011	2/15/2024	17,995,000	11,080,000	6,915,000
2011B Refunding	2.00 – 5.00	11/01/2011	2/15/2028	41,360,000	6,050,000	35,310,000
2013 Refunding	2.00 – 4.00	6/06/2013	2/15/2019	12,280,000	11,710,000	570,000
2014 Refunding	2.00 – 3.00	2/20/2014	2/15/2022	18,450,000	9,835,000	8,615,000
2014A Refunding	3.00 – 5.00	11/20/2014	2/15/2020	34,215,000	21,510,000	12,705,000
2015A Refunding	2.00 – 5.00	2/19/2015	2/15/2035	22,695,000	1,920,000	20,775,000
2015B Refunding	2.00 – 2.55	2/19/2015	2/15/2025	22,490,000	1,350,000	21,140,000
2016 Refunding	5.00 -- 5.00	12/14/2016	2/15/2027	42,040,000	8,850,000	33,190,000
2017 Refunding	2.00 – 5.00	6/13/2017	2/15/2035	41,140,000	350,000	40,790,000
				<u>\$ 310,425,000</u>	<u>\$ 130,415,000</u>	<u>\$ 180,010,000</u>
Certificates of Obligation:						
2008 Various purpose	3.00 – 4.75	6/15/2008	2/15/2028	\$ 15,965,000	\$ 15,965,000	\$ -
2009 Various purpose	3.00 – 5.25	5/15/2009	2/15/2029	22,985,000	8,220,000	14,765,000
2010 Electric utility	2.00 – 5.00	3/01/2010	2/15/2030	126,885,000	6,490,000	120,395,000
2010 Various purpose	2.00 – 4.50	4/15/2010	2/15/2030	3,205,000	1,655,000	1,550,000
2011 Various purpose	2.00 – 4.25	6/15/2011	2/15/2031	4,260,000	2,500,000	1,760,000
2012 Various purpose	2.00 – 3.375	6/01/2012	2/15/2032	6,755,000	4,155,000	2,600,000
2013 Various purpose	2.00 – 4.00	6/06/2013	2/15/2033	12,725,000	5,785,000	6,940,000
2014 Various purpose	2.00 – 4.00	6/19/2014	2/15/2034	13,475,000	6,590,000	6,885,000
2015 Various purpose	2.50 – 5.00	6/30/2015	2/15/2035	18,205,000	4,645,000	13,560,000
2015 Electric utility	5.00 – 5.00	8/27/2015	2/15/2020	53,870,000	30,730,000	23,140,000
2016 Various purpose	2.00 – 5.00	6/01/2016	2/15/2036	20,210,000	3,645,000	16,565,000
2017 Various purpose	2.00 – 5.00	6/13/2017	2/15/2037	18,140,000	1,535,000	16,605,000
2018 Various purpose	3.375 – 5.00	6/26/2018	2/15/2038	29,955,000	-	29,955,000
				<u>\$ 346,635,000</u>	<u>\$ 91,915,000</u>	<u>\$254,720,000</u>

City of Garland, Texas
Notes to the Financial Statements (Continued)

	Interest Rate (%)	Issue Date	Maturity Date	Original Issue	Cumulative Retirement	Outstanding
Utility system revenue bonds:						
2008 Electric Utility	3.25 – 4.75	6/15/2008	3/01/2028	\$ 10,115,000	\$ 10,115,000	\$ -
2008 Water & Sewer	3.00 – 5.25	6/15/2008	3/01/2028	39,900,000	39,900,000	-
2009 Electric Utility	3.25 – 5.25	5/15/2009	3/01/2029	11,760,000	7,210,000	4,550,000
2009 Water & Sewer	2.00 – 4.75	5/15/2009	3/01/2029	18,090,000	6,665,000	11,425,000
2010 Water & Sewer	2.00 – 4.75	4/15/2010	3/01/2030	21,270,000	6,265,000	15,005,000
2011 Electric Utility	2.00 – 5.00	6/15/2011	3/01/2031	7,185,000	1,075,000	6,110,000
2011 Water & Sewer	2.00 – 5.00	6/15/2011	3/01/2031	19,205,000	2,680,000	16,525,000
2011A Electric Utility	3.00 – 5.00	11/01/2011	3/01/2024	20,830,000	9,540,000	11,290,000
2011A Water & Sewer	3.00 – 5.00	11/01/2011	3/01/2024	30,150,000	13,705,000	16,445,000
2012 Water & Sewer	2.00 – 4.00	6/01/2012	3/01/2032	8,415,000	2,085,000	6,330,000
2013 Electric Utility	2.00 – 2.25	6/06/2013	3/01/2025	11,790,000	3,290,000	8,500,000
2013 Water & Sewer	3.00 – 3.375	6/06/2013	3/01/2033	29,925,000	8,025,000	21,900,000
2014 Electric Utility	2.00 – 5.00	6/30/2014	3/01/2034	85,305,000	10,390,000	74,915,000
2014 Water & Sewer	3.00 – 3.375	6/19/2014	3/01/2034	38,175,000	9,550,000	28,625,000
2015 Electric Utility	2.00 – 5.00	2/19/2015	3/01/2025	15,355,000	4,450,000	10,905,000
2016A Electric Utility	2.00 – 5.00	12/14/2016	3/01/2026	12,055,000	1,120,000	10,935,000
2016B Electric Utility	4.00 – 5.00	12/14/2016	3/01/2037	36,875,000	1,110,000	35,765,000
2016 Water & Sewer	3.00 – 5.00	12/14/2016	3/01/2027	16,715,000	1,365,000	15,350,000
2017 Water & Sewer	4.00 – 5.00	6/13/2017	3/01/2028	21,430,000	-	21,430,000
2018 Electric Utility Ref	3.625 – 5.00	6/12/2018	3/01/2048	31,985,000	-	31,985,000
2018 Water & Sewer Ref	3.5 – 5.00	6/12/2018	3/01/2038	48,310,000	-	48,310,000
				<u>\$ 534,840,000</u>	<u>\$ 138,540,000</u>	<u>\$ 396,300,000</u>

	Interest Rate (%)	Issue Date	Maturity Date	Original Issue	Net Retirement	Outstanding
Tax anticipation notes						
2017 Tax anticipation	1.15	9/28/2017	3/01/2018	\$ 8,305,000	\$ 8,305,000	\$ -
2018 Tax anticipation	2.23	9/28/2018	2/15/2019*	12,195,000	-	12,195,000
				<u>\$ 20,500,000</u>	<u>\$ 8,305,000</u>	<u>\$ 12,195,000</u>

*The City considers this short-term. The notes were called and final payment was made on February 20, 2019.

City of Garland, Texas
Notes to the Financial Statements (Continued)

	Interest Rate (%)	Issue Date	Maturity Date	Original Issue	Net Retirement	Outstanding
Commercial Paper						
2014 Electric Commercial Paper Issue	0.88	8/14/2017	10/10/2017	\$ 29,895,000	\$ 29,895,000	\$ -
2016 Electric Commercial Paper Issue	1.096	9/29/2016	05/31/2019	131,970,000	-	131,970,000
2018 Electric Commercial Paper Issue	1.55	8/03/2018	10/01/2018	11,000,000	-	11,000,000
2018 Electric Commercial Paper Issue	1.70	9/04/2018	11/02/2018	5,470,000	-	5,470,000
2018 Electric Commercial Paper Issue	1.66	9/05/2018	10/04/2018	11,000,000	-	11,000,000
2015 Water/Sewer Commercial Paper Issue	0.88	5/02/2018	6/12/2018	10,000,000	10,000,000	-
2015 Water/Sewer Commercial Paper Issue	0.87	5/04/2018	6/12/2018	45,000,000	45,000,000	-
				<u>\$ 244,335,000</u>	<u>\$ 84,895,000</u>	<u>\$159,440,000</u>

Commercial paper notes (CP) related to the enterprise funds are considered long-term instruments. Interest is paid at maturity but principal is rolled forward by issuing new CP. This process continues, typically for three years, until revenue bonds are issued to refinance outstanding CP. Only after revenue bonds are issued do principal payments begin. The combined amortization of the electric revenue bonds is set to not exceed 30 years. The combined amortization of the water and sewer revenue bonds is set to not exceed 20 years. Utilization of CP enables the City to lower overall debt payments due to the deferral of principal payments and by taking advantage of lower interest rates. CP is only issued as the funds are required throughout the year. Only projects that have been approved as part of a bond referendum may be revenue commercial paper.

City of Garland, Texas
Notes to the Financial Statements (Continued)

The annual requirements to amortize outstanding debt as of September 30, 2018, including interest payments of \$261,136,370 are summarized in the table below. Due to the nature of the obligation for compensated absences, annual requirements to amortize such obligations are not determinable, and are excluded from the summary:

Governmental Activities				
Years Ending September 30,	General Obligation Bonds		Certificates of Obligation	
	Principal	Interest	Principal	Interest
2019	\$ 19,525,000	\$ 6,377,022	\$ 8,585,000	\$ 4,246,895
2020	20,265,000	5,519,547	8,640,000	3,701,362
2021	19,540,000	4,710,497	8,895,000	3,324,937
2022	18,620,000	3,955,624	8,810,000	2,944,762
2023	16,055,000	3,252,111	8,595,000	2,567,587
2024-2028	53,080,000	7,433,371	34,010,000	7,676,619
2029-2033	10,240,000	1,570,372	15,410,000	2,354,272
2034-2038	4,580,000	143,691	5,455,000	438,585
Total	\$161,905,000	\$ 32,962,235	\$ 98,400,000	\$ 27,255,019

Business-type Activities						
Years Ending September 30,	Revenue Bonds		General Obligation Bonds		Certificates of Obligation	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 26,260,000	\$ 18,695,082	\$ 7,675,000	\$ 712,075	\$ 17,490,000	\$ 7,352,569
2020	28,270,000	16,682,594	6,750,000	352,650	18,340,000	6,445,725
2021	29,505,000	15,420,453	2,990,000	109,150	10,405,000	5,737,500
2022	30,800,000	14,056,788	675,000	17,525	11,345,000	5,203,725
2023	32,235,000	12,599,587	-	650	11,210,000	4,643,550
2024-2028	118,860,000	44,533,450	15,000	1,675	59,695,000	14,654,050
2029-2033	76,755,000	21,733,097	-	-	27,835,000	1,409,125
2034-2038	40,145,000	7,071,381	-	-	-	-
2039-2043	5,965,000	2,508,090	-	-	-	-
2044-2048	7,505,000	975,625	-	-	-	-
Total	\$396,300,000	\$154,276,147	\$ 18,105,000	\$ 1,193,725	\$156,320,000	\$ 45,446,244

City of Garland, Texas
Notes to the Financial Statements (Continued)

At September 30, 2018, the City has authorized but unissued general obligation bonds and general obligation commercial paper in the amount of \$104,361,586 as follows:

	Balance at Oct.1, 2017	General Obligation Bonds Issued	GO Commercial Paper Issued	Balance at Sept.30, 2018
Streets Improvements	\$ 71,872,399	\$ -	\$ 593,834	\$ 71,278,565
Park Improvements	16,482,073	-	676,244	15,805,829
Drainage Improvements	9,623,650	-	1,714,723	7,908,927
Municipal Facilities	7,759,622	-	485,874	7,273,748
Library Improvements	26,138	-	-	26,138
Public Safety	1,232,863	-	27,277	1,205,586
Economic Development	3,364,841	-	2,502,048	862,793
	<u>\$ 110,361,586</u>	<u>\$ -</u>	<u>\$ 6,000,000</u>	<u>\$ 104,361,586</u>

A reconciliation was performed in FY2018 to the authorized but unissued general obligation bonds and it was determined that corrections were necessary. The beginning balances have been restated to correctly reflect the outstanding balances.

General Obligation Refunding Bonds do not impact the authorized but unissued General Obligation bonds. The City intends to retire all general long-term debt, plus interest, from ad valorem taxes and other current revenues. Revenue Bonds, applicable Certificates of Obligation and applicable General Obligation Bonds are reflected in the appropriate Proprietary Fund operation. Current requirements for principal and interest expenses are accounted for in the appropriate Proprietary Fund operation.

The City has pledged future Electric, Water and Sewer utility revenues, net of specified operating expenses, to repay \$281,904,994 in outstanding Electric Utility System Revenue Bonds and \$268,674,153 in outstanding Water & Sewer Utility System Revenue Bonds. Proceeds from the revenue bonds provide financing for the acquisition and construction of various Electric, Water and Sewer assets. The bonds are payable solely from Electric net revenues and are payable through 2048. Water and Sewer bonds are payable solely from net revenues from Water and Sewer and are payable through 2038. Principal paid and interest incurred for the current year was as follows:

Utility Revenue Bonds	Principal	Interest	Total	Pledged Revenue
Electric	\$ 10,640,000	\$ 8,095,963	\$ 18,735,963	\$ 61,376,465
Water & Sewer	13,905,000	7,034,058	20,939,058	44,993,389

Certificates of Obligation and General Obligation Bonds applicable to Proprietary Fund operations are reflected in the appropriate Enterprise and Internal Service Funds and current requirements for principal and interest expenses are accounted for in the applicable fund. These requirements will be met by current revenues.

City of Garland, Texas
Notes to the Financial Statements (Continued)

Debt issues for the year are as follows:

Issue	Principal	Purpose
		Constructing, equipping, and improving municipal park and recreation facilities, library facilities, municipal landfill/transfer stations facilities, fleet services facilities, the Firewheel Golf Park, and information management services systems; constructing and improving streets, including drainage, landscaping, curbs, gutters, sidewalks, signage, traffic, signalization, and street noise abatement incidental thereto and the acquisition of land and rights-of-way therefor; acquiring public safety, environmental waste services, Firewheel Golf Park, stormwater maintenance and street department equipment; acquiring, constructing, renovating, improving and equipping existing municipal buildings, including HVAC replacement upgrade, roof replacement and safety upgrades; constructing drainage improvements, including bridge remediation; constructing and equipping facilities for the City's economic development department; and professional services rendered in connection therewith.
Certificates of Obligation, Series 2018	\$ 29,955,000	
Electric Utility System Revenue Refunding Bonds, New Series 2018	31,985,000	Bond and commercial paper refunding
Water & Sewer System Revenue Refunding Bonds, New Series 2018	48,310,000	Commercial paper refunding
Tax Anticipation Note, Series 2018	12,195,000	Short term capital projects

On June 12, 2018, the City issued \$5,225,000 in Electric Utility System Revenue Refunding Bonds, New Series 2018 to refund \$5,845,000 of outstanding Electric Utility System Revenue Bonds, Series 2008. An amount of \$5,925,484 was placed with an escrow agent to provide for debt service payments on the refunded bonds at the call date. The refunded bonds are considered defeased and the liability for those bonds have been removed from the City's financial statements. As a result of the refunding, the City decreased its total debt service payments over the next ten years by \$599,925, and obtained an economic gain (difference between the present values of the debt service payments of the old and new debt) of \$502,199.

City of Garland, Texas
Notes to the Financial Statements (Continued)

F. Retirement Plans

Plan Description

The City participates as one of 883 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.tmr.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 credit with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

At 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 credit for service since the plan began are 200% of the employee's accumulated contributions. In addition, the City granted another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his/her salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

City of Garland, Texas
Notes to the Financial Statements (Continued)

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

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Years required to vesting	5
Service retirement eligibility	age 60 with five or more years of service or with 20 years of service regardless of age

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1,366
Inactive employees entitled to but not yet receiving benefits	608
Active employees	<u>2,005</u>
	3,979

Contributions

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

Employees of the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 11.11% and 11.26% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for fiscal year 2018, were \$16,665,242, and were equal to the required contributions.

City of Garland, Texas
Notes to the Financial Statements (Continued)

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2017 actuarial valuation was determined using the following actuarial assumptions:

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

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over a 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 thru 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. 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.

City of Garland, Texas
Notes to the Financial Statements (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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5 %	4.55 %
International Equity	17.5	6.35
Core Fixed Income	10.0	1.00
Non-Core Fixed Income	20.0	3.90
Real Return	10.0	3.80
Real Estate	10.0	4.50
Absolute Return	10.0	3.75
Private Equity	5.0	7.50
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 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 benefits payments to current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the Total Pension Liability.

City of Garland, Texas
Notes to the Financial Statements (Continued)

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at December 31, 2016	\$906,262,805	\$848,810,046	\$ 57,452,759
Changes for the year:			
Service Cost	22,270,032		22,270,032
Interest (on the total pension liability)	60,506,232		60,506,232
Difference between expected and actual experience	928,620		928,620
Benefit payments, including refunds of employee contributions	(42,018,404)	(42,018,404)	-
Contributions-employer		15,640,715	(15,640,715)
Contributions – employee		10,035,625	(10,035,625)
Net investment income		117,621,308	(117,621,308)
Administrative expense		(609,672)	609,672
Other		(30,898)	30,898
Net changes	<u>41,686,480</u>	<u>100,638,674</u>	<u>(58,952,194)</u>
Balance at December 31, 2017	<u>\$947,949,285</u>	<u>\$949,448,720</u>	<u>\$ (1,499,435)</u>

Sensitivity of the net pension liability to changes in the discount rate

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 5.75%	Current Single Rate Assumption 6.75%	1 % Increase 7.75%
<u>\$ 114,618,370</u>	<u>\$ (1,499,435)</u>	<u>\$ (98,885,496)</u>

City of Garland, Texas
Notes to the Financial Statements (Continued)

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.tmr.com.

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

For the year ended September 30, 2018, the City recognized pension expense of \$18,775,910.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 804,115	\$ (3,630,607)
Difference in assumption changes	6,956,291	-
Difference between projected and actual investment earnings on pension plan investments	-	(23,588,768)
Employer contributions subsequent to the measurement date	12,622,974	-
	\$ 20,383,380	\$ (27,219,375)

Deferred outflows of resources of \$12,622,974 related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows or resources related to OPEB will be recognized in OPEB expense as follows:

Year ended	
September 30,	
2019	\$ 2,689,380
2020	873,520
2021	(11,179,575)
2022	(11,881,429)
2023	39,135
Total	\$ (19,458,969)

City of Garland, Texas
Notes to the Financial Statements (Continued)

G. Other postemployment benefits

City of Garland other postemployment benefit plan

Plan Description

The City makes available health care benefits to all employees who work for the City of Garland a minimum of five years, meet the Texas Municipal Retirement System (TMRS) criteria listed on page 70, and elect coverage at the time of retirement and maintain continuous, uninterrupted coverage. Benefit provisions are established by management and funding is approved by City Council annually, during the budget process.

In 2008, the City established an irrevocable trust fund in an effort to begin funding the actuarial determined OPEB unfunded liability and to ensure that funding is available in the future for retiree medical benefits. In 2018, the City Council approved a transfer of \$1,250,000 to the trust, and a long-term funding strategy was implemented to increase the annual contribution to this trust with a goal of fully funding the annual OPEB obligation after ten years.

The OPEB trust investments are held in the Public Agencies Retirement Services (PARS) Post-retirement Health Care Plan Trust by its trustee, US Bank. US Bank has delegated investment management responsibilities to HighMark Capital Management, Inc. (Investment Manager), a SEC-registered investment advisor. The Trust investment guideline mandates a diversified portfolio designed to generate long-term returns that, when combined with contributions, will result in sufficient assets to pay future obligation associated with the retiree health plan.

Benefits Provided

The City of Garland provides insurance to eligible pre-65 retirees, their spouses and dependents through the City's self-insured group health plan. Post-65 retirees are offered a fully insured Medicare Supplement Plan through Hartford, who assumes all claims risk liability on this group of retirees. The City makes contributions towards retiree health care benefits. However, the City reduces its liability and risk by capping the annual increase to the City contribution to a maximum of 3% per year. For FY2018, the monthly City contribution per participant for the retiree group as a whole was \$459.

As of December 31, 2017 biennial actuarial valuation, the Plan's membership consisted of the following:

<u>Number of plan members</u>	<u>Medical</u>
Retirees and dependents currently receiving benefits	310
Inactive members entitled to benefits, but not yet receiving them	441
Active members	<u>1,871</u>
Total	<u><u>2,622</u></u>

City of Garland, Texas
Notes to the Financial Statements (Continued)

Contributions and Funding Policy

The City has the authority to establish and amend the Plan contributions. The City makes an annual contribution to the Trust fund; the funding is established and approved by City Council as part of the City budget process. For the year ended September 30, 2018, the City's average contribution rate was 3.38 percent of the covered-employee payroll. Monthly retiree premiums are utilized to fund current medical claims and are based on the benefit election of the Plan member.

Net OPEB Liability

The City's net OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

Actuarial Valuation Date	12/31/2017
Actuarial Cost Method	Entry Age Normal
Asset valuation method	Market value
Inflation	2.50%
Projected salary increase	3.00%
Discount rate	4.14%
Healthcare cost trend rates	All years capped at 3.0%
Mortality	Combined RP-2014 Dynamic table projected using MP-2017 representative rates per thousand for the RP-2014 mortality table

City of Garland, Texas
Notes to the Financial Statements (Continued)

Rate of Return

The long-term expected rate of return on OPEB plan investments will be managed on a total return basis which takes into consideration both investment income and capital appreciation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Large Cap Core	26.50 %	6.70 %
Mid Cap Core	5.00	7.00
Small Cap Core	7.50	7.90
Real Estate	1.75	5.70
International	6.00	7.30
Emerging Markets	3.25	9.70
Short Term Bond	10.00	3.80
Intermediate Term Bond	33.50	4.50
High Yield	1.50	6.00
Cash	5.00	2.10
Total	<u>100.00 %</u>	

The long-term expected rate of return 6.75%

Discount rate

The discount rate used to measure the Total OPEB Liability was 4.14%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the OPEB plan's Fiduciary Net Position was projected to be available to make all projected future benefits payments to current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all period of projected benefit payments to determine the total OPEB liability.

The discount rate for the 12/31/2017 measurement was 4.14% which caused an actuarial gain.

City of Garland, Texas
Notes to the Financial Statements (Continued)

Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) – (b)
Balance at December 31, 2016	\$70,652,262	\$ 3,767,364	\$ 66,884,898
Changes for the year:			
Service Cost	2,260,181		2,260,181
Interest (on the total OPEB liability)	3,284,435		3,284,435
Difference between expected and actual experience	(1,303,593)		(1,303,593)
Change in assumptions	7,017,755		7,017,755
Benefit payments, including refunds of employee contributions	(3,529,580)	(3,529,580)	-
Contributions-employer		4,779,579	(4,779,579)
Net investment income		527,289	(527,289)
Administrative expense		(21,120)	21,120
Net changes	<u>7,729,198</u>	<u>1,756,168</u>	<u>5,973,030</u>
Balance at December 31, 2017	<u>\$78,381,460</u>	<u>\$ 5,523,532</u>	<u>\$ 72,857,928</u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the City, calculated using the discount rate of 4.14%, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.14%) or 1-percentage-point higher (5.14%) than the current rate:

1% Decrease 3.14%	Current Single Rate Assumption 4.14%	1 % Increase 5.14%
<u>\$ 87,187,486</u>	<u>\$ 72,857,928</u>	<u>\$ 61,892,285</u>

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the City, calculated using the discount rate of 4.14%, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rate

1% Decrease 2.0%	Current Single Rate Assumption 3.0%	1 % Increase 4.0%
<u>\$ 62,019,181</u>	<u>\$ 72,857,928</u>	<u>\$ 86,762,734</u>

City of Garland, Texas
Notes to the Financial Statements (Continued)

OPEB Plan Fiduciary Net Position

The Plan is a single-employer plan and does not issue a publicly available financial report.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflow of Resources Related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$6,502,862.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ -	\$ (1,009,564)
Difference in assumption changes	5,434,885	-
Difference between projected and actual investment earnings on pension plan investments	-	(196,694)
Employer contributions subsequent to the measurement date	2,792,726	-
	\$ 8,227,611	\$ (1,206,258)

Deferred outflows of resources of \$2,792,726 related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows or resources related to pensions will be recognized in OPEB expense as follows:

Year ended		
September 30,		
2019	\$	1,239,668
2020		1,239,668
2021		1,239,668
2022		509,623
Total	\$	4,228,627

City of Garland, Texas
Notes to the Financial Statements (Continued)

Supplemental Death Benefits Plan (SDBF)

Texas Municipal Retirement System (TMRS) administers a defined benefit group-term life insurance plan known as Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members and retirees. 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). The death benefit for retirees is considered an other postemployment benefit (OPEB) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (pay as you go plan). The retiree portion of the SDBF is considered to be a single-employer, defined benefit OPEB plan.

Detail information about the SDBF OPEB plan is available in a separately-issued TMRS financial report. That report may be obtained on the internet at www.tmr.com.

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 employee's entire careers. The SDBF contribution rate for retirees is .04%.

As of December 31, 2017, membership in the plan consisted of the following:

Inactive employees currently receiving benefits	1,061
Inactive members entitled to benefits, but not yet receiving them	199
Active members	<u>2,005</u>
Total	<u>3,265</u>

The City's OPEB liability is measured as of December 31, 2017, and the total OPEB liability was determined by an actuarial valuation as of December 31, 2017.

City of Garland, Texas
Notes to the Financial Statements (Continued)

Actuarial Assumptions

Inflation	2.5%
Salary increases	3.5% to 10.5% including inflation
Discount rate	3.31%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates-service retirees	RP 2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates-disabled retirees	RP 2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to a 3% floor.

Discount rate: For plans that do not have formal assets, the discount rate should equal the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of measurement date. The municipal bond rate is 3.31% (based on the daily rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA index").

Changes in Total OPEB Liability

Beginning at December 31, 2016	\$ 6,225,775
Service Cost	214,962
Interest on the total OPEB liability	238,314
Change in assumptions	542,752
Benefit payments	<u>(57,323)</u>
Net change in total OPEB liability	<u>938,705</u>
Ending at December 31, 2017	<u>\$ 7,164,480</u>

City of Garland, Texas
Notes to the Financial Statements (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the Total OPEB liability of the City, calculated using the discount rate of 3.31%, as well as what the City's Total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current rate:

1% Decrease 2.31%	Current Discount Rate Assumption 3.31%	1 % Increase 4.31%
\$ 8,548,658	\$ 7,164,480	\$ 6,077,217

OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$540,395.

At September 30, 2018, the City reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources
Difference in assumption changes	\$ 455,633
Employer contributions subsequent to the measurement date	45,653
	\$ 501,286

Deferred outflows of resources of \$45,653 related to OPEB resulting from retiree contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows or resources related to pensions will be recognized in OPEB expense as follows:

Year ended September 30,	
2019	\$ 87,119
2020	87,119
2021	87,119
2022	87,119
2023	87,119
Thereafter	20,038
Total	\$ 455,633

City of Garland, Texas
Notes to the Financial Statements (Continued)

H. Self-Insurance

Self-insurance for general and auto liability exposure and workers' compensation is maintained in the Self-Insurance Fund of the Internal Service Fund. A private insurance company administers workers' compensation claims and losses for the City. Self-insurance premiums of \$5,712,229 were collected from funds that participate in these. Claims settlement and loss expenses are accrued in the Self-Insurance Fund for the estimated settlement value of claims reported and incurred but not reported arising from incidents during the period. A liability, insurance claims payable, has been established. The reported liability includes actuarially determined present value projected losses for general, auto, and workers' compensation exposure. In determining projected losses, coverages with material incurred losses were compared to expected industry loss levels for prior periods. Based on this comparison, an experience modifier was selected and applied to current indicated industry premiums per exposure unit to obtain expected losses as of September 30, 2018, at the selected per occurrence limits. Based on a current independent actuarial analysis completed in December 2018 claims payable as of September 30, 2018 was estimated at \$6,500,950.

Long-Term Disability (LTD) claims are paid from the LTD Insurance Fund, which is funded with City and employee contributions. A private company administers the long-term disability claims and losses for the City. Based on a current independent actuarial analysis, an actuarially determined liability of \$3,112,604 has been established for projected future claims.

Group medical benefits are paid from the Group Health Fund, which has an annually negotiated stop loss provision. Revenues are recognized from payroll deductions for employee dependent coverage and from City contributions for employee coverage. At September 30, 2018, a short-term liability of \$2,223,841 was recognized for open claims and claims incurred but not reported. The claims incurred but not reported are calculated based on a monthly average for claims paid during the current fiscal year.

There were no significant reductions in insurance coverage in the current year from coverage in the prior year, nor have there been any settlements that have exceeded insurance coverage for each of the past three fiscal years.

Changes in the self-insurance, long-term disability and group health insurance claims payable in fiscal years 2017 and 2018 were:

Internal Service Fund	Beginning of Fiscal Year Liability	Current Year Claims	Changes in Estimates	Claim Payments	Balance at Fiscal Year – End	Current Portion
Self-Insurance – 2017	\$ 7,262,640	\$ 760,911	\$ -	\$ 760,911	\$ 7,262,640	\$ 2,774,500
Self-Insurance – 2018	7,262,640	4,052,123	(761,690)	4,052,123	6,500,950	2,774,500
Long-Term Disability – 2017	2,875,700	440,182	-	440,182	2,875,700	490,000
Long-Term Disability – 2018	2,875,700	175,051	236,904	175,051	3,112,604	490,000
Group Health – 2017	1,881,834	21,006,586	(217,946)	21,006,586	1,663,888	1,663,888
Group Health – 2018	1,663,888	21,174,363	559,953	21,174,363	2,223,841	2,223,841

City of Garland, Texas
Notes to the Financial Statements (Continued)

I. Texas Municipal Power Agency

The Texas Municipal Power Agency (TMPA) was created in 1975 pursuant to legislation that was passed by the 64th Legislative Session. TMPA, a municipal corporation, is governed by a Board of Directors, where each member city appoints two representatives to the Board. In 1976, the City along with the cities of Bryan, Denton, and Greenville (collectively “the Cities”) entered into identical Power Sales Contracts with TMPA. Under the Power Sales Contracts each member city is required to purchase all future power and energy requirements in excess of the amounts generated by their systems from TMPA at rates set to cover TMPA’s operating cost and retirement of debt. In the event that revenues are insufficient to cover all costs to retire the outstanding debt, each of the member cities has guaranteed a portion of the unpaid debt based on a percentage. The City’s percentage requirement was 47%. On September 1, 2018, TMPA made the final debt service payment on its generation debt, which extinguished the City’s obligation with respect to such debt. With the extinguishment of TMPA’s generation debt and the election of the Cities to not extend the Power Sales Contract beyond September 30, 2018, the Power Sales Contract expired. Each of the Cities has the right to enter into a new power sales contract with TMPA; however, none of the Cities have exercised this right.

TMPA and the Cities entered into a Joint Operating Agreement (JOA) effective September 1, 2016. The JOA represents the post-Power Sales Contract plans for TMPA and the Cities. The JOA divides TMPA assets and operations into three business categories – generation, transmission, and mining.

The City pays TMPA a pro-rated monthly charge based on the City’s contractual portion of TMPA’s annual fixed operating costs and debt service payments which is currently 47%. During 2018, the City paid TMPA \$38,599,035 for these charges for the year. It is anticipated that the City will pay \$3,417,637 for these charges during FY2019.

Total debt of TMPA at September 30, 2018, amounted to \$210,575,000 of which \$4,150,000 represented the current portion. TMPA’s outstanding long-term debt and short-term debt obligations are all associated with TMPA’s transmission system and are payable from and secured by TMPA’s transmission net revenues.

TMPA
 Outstanding Debt Amounts
 September 30, 2017
 (reported in thousands)

	Long-Term	Current	Total
Revenue Bonds	\$ 186,925	\$ 4,150	\$ 191,075
Tax Exempt Commercial Paper	19,500	-	19,500
	\$ 206,425	\$ 4,150	\$ 210,575

City of Garland, Texas
Notes to the Financial Statements (Continued)

On March 1, 2010, the City issued Combination Tax & Electric Utility System Revenue Refunding Bonds, Series 2010 with a maturity of 20 years for the purpose of prepaying certain contractual obligations to TMPA. The principal amount of the bonds was \$126,885,000 with a reoffering premium and other bond issuance costs of \$11,367,850 for a total of \$138,252,850. Since the proceeds of this debt issuance were placed with TMPA and the City received an economic benefit over a period of years, an Other Asset was recorded in the Electric Fund Statement of Net Position in the amount of \$138,252,850. The City is amortizing the Other Asset over a period of 20 years with a half year convention. On September 30, 2017, the City impaired 37.9% of the generation portion, for a total of \$50,045,780. The impaired portion was recorded as a GASB 62 Regulatory Asset in Others Assets to be amortized through FY2030. The City has recorded a total of \$58,747,461 of accrued amortization, leaving a balance in the Other Assets account of \$79,495,389 at September 30, 2018.

TMPA GASB 42 Impairment of TMPA Other Asset Costs

The TMPA Board of Directors approved a plan to suspend Gibbons Creek generation activities indefinitely. The notification was submitted to ERCOT on December 21, 2018. The remaining generation portion of the TMPA Other Asset becomes impaired as a result of this determination. The asset impairment was calculated based on Continued Service Units as follows:

<u>Operation Year</u>	<u>Budgeted MWH's</u>	<u>% Continued Service Units</u>
2018 – Seasonal Operations	810,431	
2019 – Suspended indefinitely	-	0.0%

TMPA GASB 62 Regulatory Asset

City of Garland's Series 2010 debt issuance funded TMPA costs and was recorded as Other Assets to be amortized over the life of the debt. The Series 2010 debt issuance will be paid off in 2030. The City of Garland included the Series 2010 debt service as a part of cost of service.

City of Garland, Texas
Notes to the Financial Statements (Continued)

To qualify to utilize GASB 62, the following must apply:

- The regulated business-type activity's rate for regulated services provided to its customers are established by or are subject to approval of an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.
- The regulated rates are designed to recover the specific regulated business-type activity's costs of providing the regulated services.
- In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the regulated business-type activity's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs.

The City of Garland qualifies to utilize GASB 62 due to:

- State and local statutes empower the City of Garland City Council to establish retail rates.
- The City of Garland specific costs are recovered through City of Garland retail rates.
- Current and projected customer demand support the recovery of City of Garland cost of service.

A regulatory asset will be established on September 30, 2018, and will be amortized through 2030.

	Generation	Transmission	GASB 62 Regulatory Asset	Total Other Asset
Balance Sept. 30, 2017	\$ 30,565,772	\$ 5,796,479	\$ 50,045,780	\$ 86,408,031
Other asset amortization	(2,445,262)	(463,718)	(4,003,662)	(6,912,642)
	28,120,510	5,332,761	46,042,118	79,495,389
Impairment	(28,120,510)	-	-	(28,120,510)
GASB 62 regulatory asset	-	-	28,120,510	28,120,510
Balance Sept 30, 2018	\$ -	\$ 5,332,761	\$ 74,162,628	\$ 79,495,389

Financial statements for TMPA are available from the TMPA website texasmpa.org or through the City of Garland Financial Services Department.

City of Garland, Texas
Notes to the Financial Statements (Continued)

J. Deferred Compensation Plan

The City offers its employees a voluntary deferred compensation plan created in accordance with Internal Revenue Code Section 457. The deferred compensation plan, available to all permanent City employees, permits participants to contribute annually the amount per IRS limitations on a tax-deferred basis up to the annual contribution limit allowed by the IRS. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under this plan, all property and rights purchased with those amounts, and all income attributable to these amounts, property, or rights are held in trust for the exclusive benefits of participants and their beneficiaries. Therefore, the Deferred Compensation Investments are no longer reported in the City's financial statements.

K. Conduit Debt Information

The discrete component unit was created to issue revenue bonds to provide financial assistance to qualified homeowners. Even though the bonds are outstanding, there is no liability to the City or the component unit (no commitment debt), as all liability transfers to the trustee of the bond issue. A summary of outstanding conduit bonds at December 31, 2017, is as follows:

<u>Series</u>	<u>Garland Housing Finance Corporation</u>	<u>Total</u>
2005	\$ <u>11,986,788</u>	\$ <u>11,986,788</u>
	\$ <u>11,986,788</u>	\$ <u>11,986,788</u>

City of Garland, Texas
Notes to the Financial Statements (Continued)

L. Business-Type Blended Component Unit

The Garland Foundation for Development (GFFD) was organized to promote economic development within the City of Garland. GFFD is reported as a blended component unit of the non-major enterprise golf fund. A summary of the condensed combining information at September 30, 2018, is as follows:

Golf Fund Condensed Statement of Net Position

	Golf	GFFD	Eliminating Entries	Total
Current Assets	\$ 459,062	\$ 5,170	\$ -	\$ 464,232
Other Assets	278,422	-	-	278,422
Capital Assets	15,437,358	-	-	15,437,358
Total Assets	<u>16,174,842</u>	<u>5,170</u>	<u>-</u>	<u>16,180,012</u>
Deferred outflow of resources-pensions	115,587	-	-	115,587
Deferred outflow of resources-OPEB	66,443	-	-	66,443
Total deferred outflow	<u>182,030</u>	<u>-</u>	<u>-</u>	<u>182,030</u>
Current Liabilities	216,901	-	-	216,901
Other Liabilities	659,527	-	-	659,527
Total Liabilities	<u>876,428</u>	<u>-</u>	<u>-</u>	<u>876,428</u>
Deferred inflow of resources-pensions	154,352	-	-	154,352
Deferred inflow of resources-OPEB	9,182	-	-	9,182
Total deferred inflow	<u>163,534</u>	<u>-</u>	<u>-</u>	<u>163,534</u>
Net Investment in Capital Assets	15,695,408	-	-	15,695,408
Unrestricted Net Position	<u>(378,498)</u>	<u>5,170</u>	<u>-</u>	<u>(373,328)</u>
Net Position	<u>\$ 15,316,910</u>	<u>\$ 5,170</u>	<u>\$ -</u>	<u>\$ 15,322,080</u>

City of Garland, Texas
Notes to the Financial Statements (Continued)

Golf Fund Condensed Statement of
Revenues, expenses, and changes in
Net Position

	Golf	GFFD	Eliminating Entries	Total
Operating Revenues	\$ 3,754,933	\$ 5,467	\$ -	\$ 3,760,400
Operating expenses before depreciation	(3,960,824)	(297)	36,981	(3,924,140)
Depreciation	(906,621)	-	-	(906,621)
Total Operating Loss	(1,112,512)	5,170	36,981	(1,070,361)
Gain on disposal of capital assets	206,000	-	-	206,000
Earnings on investments	3,652	-	-	3,652
Net transfers	972,000	36,981	(36,981)	972,000
Change in Net Position	69,140	42,151	-	111,291
Net Position, beginning of year	15,495,456	(36,981)	-	15,458,475
Adjustment to net position, GASB 75	(247,686)	-	-	(247,686)
Net Position, end of year	<u>\$ 15,316,910</u>	<u>\$ 5,170</u>	<u>\$ -</u>	<u>\$ 15,322,080</u>

Golf Fund Condensed Statement of Cash Flows

	Golf	GFFD	Eliminating Entries	Total
Net cash provided by (used for) operations	\$ (993,585)	\$ 787,060	\$ -	\$ (206,525)
Net cash provided by noncapital financing activities	1,177,259	-	-	1,177,259
Net cash used for capital and related activities	(743,328)	-	-	(743,328)
Net cash used for investing activities	(47,077)	-	-	(47,077)
Net increase (decrease) in cash and cash equivalents	(606,731)	787,060	-	180,329
Cash and cash equivalents at beginning of year	158,610	-	-	158,610
Cash and cash equivalents at end of year	<u>\$ (448,121)</u>	<u>\$ 787,060</u>	<u>\$ -</u>	<u>\$ 338,939</u>

The Garland Public Facility Corporation (GPFC) was organized for the purpose of assisting the City in financing, refinancing, or providing public facilities. GPFC is reported as a blended component unit in the non-major governmental fund. As of September 30, 2018, the condensed combining information for GPFC is \$3,521,016 for contributed land reported in governmental activities on the government wide statement of net position and statement of activities.

City of Garland, Texas
Notes to the Financial Statements (Continued)

M. Landfill Closure and Postclosure Care Cost

As of September 30, 2018, the total estimated landfill closure/postclosure cost for the City's Castle Drive landfill, Hinton landfill, and transfer station is \$2,265,721, \$38,425,018 and \$35,415 respectively. The \$13,464,219 reported as landfill closure and postclosure care liability represents the cumulative amount reported to date based on the use of 100% of the estimated capacity of the Castle landfill, 30.56% use of the Hinton landfill, 100% of the closure cost for the transfer station, less post closure expenditures to date of \$578,500. The City will recognize the remaining estimated closure and postclosure care costs of \$26,683,434 as the percentage of capacity depletion increases. These amounts are based on an engineering study performed in 1996 and updated in 2015, which estimated cost to perform all closure and postclosure care. In addition, the closure and postclosure care cost were adjusted for inflation annually based on the most recent Implicit Price Deflator for Gross National Product published by the United States Department of Commerce. Actual cost may differ from the estimate due to inflation, changes in technology, or regulatory changes. The Hinton landfill has an estimated remaining useful life of 44 years.

Since the City's Landfill operation is a general government function, a special revenue fund was established to account for actual landfill closure and postclosure care funding sources and expenditures as they are incurred. Based on the City's current landfill closure financial strategy, \$2.4 million in Certificates of Obligation will be issued to finance the one time closure cost and the on-going post closure care will be paid from operating funds.

N. Economic Incentives and Tax Abatements

The City enters into economic development and tax abatement agreements in order to spur commercial activity, generate additional sales tax revenue, enhance the property tax base, and provide increased economic vitality to the City. All abatement projects meet a minimum threshold point total based on full-time jobs, annual payroll, value of new or remodeled facilities, value of machinery and equipment, value of inventory, annual sales tax generated, or Garland Power & Light electric usage. All abatements must be approved on a case-by-case basis negotiated by City staff and approved by the City Council. Recipients receiving assistance generally commit to building or remodeling real property and related infrastructure, expanding operations, renewing facility leases and bringing targeted businesses to the City. Recipients are largely required to meet and maintain minimum thresholds of real and personal property values, full time employees, number of tenants or other provisions specific to an individual recipient. Agreements are generally made for a period of five years and contain recapture provisions which may require repayment or termination if a recipient fails to meet the required provisions.

The City has two categories of economic development agreements:

Tax Abatements – Under Chapter 312 of the Texas Tax Code the City is allowed to designate tax reinvestment zones and negotiate tax abatement agreements with applicants within these zones. The abatement agreements authorize the appraisal districts to reduce the assessed value of the taxpayer's property by a percentage specified in the agreement, and the taxpayer will pay taxes on the lower assessed value during the term of the agreement. A summary of Chapter 312 Tax Abatements for the year ended September 30, 2018, is as follows:

<u>Abatement Type</u>	<u>Active Agreements</u>	<u>Total Taxes Abated FY18</u>
Ad Valorem Tax	5	\$ -
Business Personal Property Tax	10	-

City of Garland, Texas
Notes to the Financial Statements (Continued)

Tax Rebates – Under Chapter 380 of the Texas Local Government Code, the City is allowed to enter into agreements in order to stimulate economic activity. These agreements may rebate a flat amount or percentage of real property, personal property or sales taxes received by the City. A summary of Chapter 380 tax rebates for the year ended September 30, 2018 is as follows:

<u>Abatement Type</u>	<u>Active Agreements</u>	<u>Total Taxes abated FY18</u>
Ad Valorem Tax	4	\$ 373,022
Business Personal Property Tax	3	21,536
Sales Tax	8	1,422,203

O. Commitments and Contingent Liabilities

The City has been named as a defendant or co-defendant in a number of personal injury cases. While the outcome of these cases is not known at this time, the City attorney and City management are of the opinion that any awards to injured parties which must be paid in excess of amounts covered by insurance will not be material to the financial position of the City.

A number of other claims against the City, as well as certain other matters of litigation, are pending with respect to various matters arising in the normal course of the City's operations. The City attorney and City management are of the opinion that the settlement of these other claims and pending litigation will not have a material adverse impact on the City's financial position.

The City participates in a number of State and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement that may arise as the result of these audits is not believed to be material.

On December 19, 2013, the City entered into a twenty (20) year energy purchase power agreement with Spinning Spur Wind Three, LLC. The agreement extends from the start hour 1:00 of the Commercial Operation Date and ends at the completion of hour 24:00 of the day immediately preceding the twentieth (20) anniversary. The City purchases 26% of the output from the 194MW facility. Commercial Operations began September 28, 2015.

On August 28, 2014, the City entered into a twenty-five (25) year energy purchase power agreement with Los Vientos Windpower V, LLC. The agreement extends from the start of hour 1:00 of the Commercial Operation Date and ends at the completion of hour 24:00 of the day immediately preceding the twenty-fifth (25) anniversary. The City purchases 45.96% of the output from the 110MW facility. Commercial Operations began December 23, 2015.

On June 12, 2015, the City entered into a fourteen (14) year energy purchase power agreement with Salt Fork Wind, LLC. The agreement extends from the start of hour 1:00 (CPT) of the Commercial Operation Date and ends at the completion of hour 24:00 (CPT) of the day immediately preceding the fourteenth (14th) anniversary. The City purchases up to 150MW from the facility. The City has contracts to sell 77% of this energy downstream. Commercial Operations began December 1, 2016.

City of Garland, Texas Notes to the Financial Statements (Continued)

On October 27, 2015, the City entered into a twenty (20) year energy purchase power agreement with Albercas Wind Energy II, LLC. From the effective date, the agreement extends until 23:59:59 (CPT) on the day prior to the 20th anniversary of the Commercial Operation Date. The City purchases up to 96MW from the facility. The City has contracts to sell 74% of this energy downstream. Commercial Operations began November 13, 2016.

On December 28, 2015, the City entered into a fifteen (15) year energy purchase power agreement with BNB Lemesa Solar LLC. The agreement extends from the start of hour 1:00 (CPT) of the Commercial Operation Date and ends at the completion of hour 24:00 (CPT) of the day immediately preceding the fifteenth (15th) anniversary. The Commercial Operation Date is anticipated to be no later than March 31, 2017. The City will purchase 102 MW from the facility. The City has contracts to sell 49% of this energy downstream. Commercial Operations began April 27, 2017.

On November 20, 2018, the City entered into renewable purchase power agreement with Engie Long Draw Solar LLC. The agreement extends fifteen (15) years following the Commercial Operation Date. The Commercial Operation Date is anticipated to be no later than June 30, 2021. The City will purchase up to 25 MW from the facility

On December 11, 2018, the City entered into a renewable purchase power agreement with Concho Bluff LLC. The agreement extends fifteen (15) years following the Commercial Date. The Commercial Operation Date is anticipated to be no later than December 21, 2021. The City will purchase up to 50 MW from the facility.

The City executed confirmations through December 31, 2026, under its International Swaps and Derivatives Association Inc. (ISDA) Master Agreement to purchase electricity under specific terms and conditions. Management believes the purchase of electricity under the specific terms and conditions of the confirmation were for normal purchases/normal sales and non-speculative in nature.

P. Derivative Instruments

In an effort to mitigate the financial and market risk associated with the purchase of natural gas, energy, and congestion price volatility, the City has established a Risk Management Program. This program was authorized by the City Council and is led by the Risk Oversight Committee. Under this program, the City enters into forward contracts for natural gas and energy for the purpose of reducing exposure to natural gas and energy price risk. Use of these types of instruments for the purpose of reducing exposure to price risk is performed as a hedging activity. These contracts may be settled in cash or delivery of certain commodities. The City typically settles these contracts by delivery of certain commodities.

The City applies GASB Statement No 53 – *Accounting and Financial Reporting for Derivative Instruments*, (“GASB 53”), which addresses the recognition, measurement, and disclosures related to derivative instruments. The City utilizes natural gas commodity swaps to hedge its exposure to fluctuating fuel prices. Since these derivatives are entered into for risk mitigation purposes, the instruments are considered potential hedging derivative instruments under GASB 53. The City evaluated all potential hedging derivative instruments for effectiveness utilizing the consistent critical terms method as of September 30, 2018, and as of September 30, 2017, and determined the derivatives to be effective in substantially offsetting the change in cash flows of the hedgeable items. These derivatives act as cash flow hedges.

City of Garland, Texas
Notes to the Financial Statements (Continued)

At September 30, 2018, the total fair value of outstanding hedge instruments was a net asset of \$661,192. Fuel hedging instruments with a fair value of \$110,238 are classified on the Statement of Net Position as a current asset. Long-term fuel hedges with a fair value of \$550,954 are classified on the Statement of Net Position as a non-current liability. As of September 30, 2017, the total fair value of outstanding hedge instruments was a net asset of \$553,669. Fuel hedging instruments with a fair value of \$818,782 are classified on the Statement of Net Position as a current asset. Long-term fuel hedges with a fair value of \$265,113 are classified as a component of long-term liabilities. Changes in fair value as of September 30, 2018, of \$396,080 are reflected in deferred inflows. The following information details the City Electric Fund's hedging derivative instruments below:

Derivative transactions as of September 2018:

Type	Terms	Notional Amount (MMBtu)	Purchase Dates	Maturity Dates	Referenced Index	Fair Value
Commodity Swaps	City pays prices of \$2.67 - \$3.62	4,261,811	Feb 2015- Feb 2018	Oct 2018- Dec 2021	NYMEX	\$ (661,192)
<hr/>						
						<u>\$ (661,192)</u>

Derivative transactions as of September 2017:

Type	Terms	Notional Amount (MMBtu)	Purchase Dates	Maturity Dates	Referenced Index	Fair Value
Commodity Swaps	City pays prices of \$2.755 - \$3.62	8,331,612	Feb 2015- June 2017	Oct 2017- Dec 2021	NYMEX	\$ 553,669
<hr/>						
						<u>\$ 553,669</u>

At September 30, 2018, the City had thirteen wholesale customers to provide power supply and/or qualified scheduling entity services. The contract terms extend up to December 31, 2026. For the power supply customers, the City charges an energy charge which is based on the quantity of power supplied multiplied by a fixed price, or multiplied by a fixed heat rate and a fuel index price. In order to hedge the City's risk, the City has entered into corresponding power supply agreements with counterparties to hedge against energy price or heat rate fluctuation in the market.

Congestion Revenue Rights

Pre-assigned Congestion Revenue Rights (PCRRs) and Congestion Revenue Rights (CRRs) function as financial hedges against the cost of resolving congestion in the Electric Reliability Council of Texas (ERCOT) market. These instruments allow the City to hedge expected future congestion that may arise during a certain period. CRRs are purchased at auction, annually and monthly at market value. Municipally owned utilities are granted the right to purchase PCRRs annually at 10-20% of the cost of CRRs. At September 30, 2018, the City held CRRs with a cost and fair market value of \$2,648,778, that the City expects to use in normal operations, which is recorded as prepaid expense in the Electric fund.

City of Garland, Texas
Notes to the Financial Statements (Continued)

Risks

Credit Risk. The City's over-the-counter agreements for natural gas and energy expose the City to credit risk. In the event of default, the City's operations will not be materially affected. However, the City does not expect the counterparties to fail to meet their obligations. The City maintains contracts with contractual provisions under the ISDA, EEI (Edison Electric Institute), and NAESB (North American Energy Standards Board) agreements. As of September 30, 2018, the City had outstanding forward purchase contracts extending through December 31, 2026, which are expected to be settled through physical delivery.

The City monitors the credit ratings of all of its counterparties to adhere to the City's Risk Management Policy. Any counterparty that does not have at least a BBB- credit rating must be approved by the Risk Oversight Committee.

The congestion revenue rights expose the City to custodial credit risk in the event of default or nonperformance by ERCOT. In the event of default or nonperformance, the City's operations will not be materially affected. However, the City does not expect ERCOT to fail in meeting their obligations as they are a regulatory entity of the State of Texas.

Basis Risk. The City could be exposed to basis risk on its fuel hedges if the expected commodity purchases being hedged will price based on a delivery point (WAHA/Katy/HSC) different than that at which the financial hedging contracts are expected to settle NYMEX (Henry Hub).

Termination Risk. Termination risk is the risk that a derivative will terminate prior to its scheduled maturity date due to a contractual event. Contractual events include illegality, tax and credit events upon merger and other events. The City's exposure to termination risk for over-the-counter agreements is minimal due to the high credit rating of the counterparties, and the contractual provisions under the ISDA, EEI, and NAESB agreements applied to these contracts. Termination risk is associated with all of the City's derivatives up to their fair value of the instrument.

Close-out Netting Arrangements. The City enters into close-out netting arrangements whenever it has entered into more than one derivative transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and set off the transaction's fair values so that a single sum will be owed by or owed to the non-defaulting party.

City of Garland, Texas
Notes to the Financial Statements (Continued)

Q. GHFC Primrose at Crist Project

On January 17, 2005, GHFC entered into an agreement, to create a partnership to construct and operate a 204-unit rental residential development for seniors to be known as Primrose at Crist located in the City. The original partnership of TX Crist Housing LLP consisted of TX Crist GP LLC, Wachovia Affordable Housing Community Development Corporation a Limited Investment Partner, and TX Crist Development, SLP, L.L.C a Class B Limited Partner. On April 20, 2008 the original partnership agreement was amended to replace TX Crist Development with CAH-IDA Crist Housing as the Class B Limited Partner.

GHFC owns 100% of TX Crist GP LLC, and appoints the president and treasurer (officers) of this limited liability corporation. GHFC issued Conduit Debt amounting to \$13,800,000 of variable rate multifamily housing revenue bonds (Primrose at Crist Apartments Project) for the benefit of TX Crist Housing LLP (the bond borrower). GHFC receives an annual issuer fee of 0.01% of the outstanding variable rate multifamily housing revenue bonds that were issued by the bond borrower. The outstanding conduit debt balance at December 31, 2017, is \$11,986,788.

On the closing date of the GHFC Variable Rate Multifamily Housing Revenue Bonds, the land for the project was purchased and titled to GHFC. The land and future improvement have been mortgaged to secure repayment to the lender of the GHFC Multifamily notes. In addition, the land was leased over the next 40 years for \$900,000. The remaining unearned revenue as of December 31, 2016, related to this transaction of \$613,125 will be amortized over the next 28.5 years as rent revenue.

According to the Primrose at Crist Master Agreement TX Crist GP LLC will receive a developer fee that could amount to \$500,000. To date, GHFC has received \$332,409 of the \$500,000. After the developers' fee is paid, TX Crist GP LLC shall be entitled to receive from net operating cash flow after a \$10,000 asset management fee is paid, any tax credit shortfalls are paid, any operating deficit loans are paid, and any subordinated property management fees are paid, a cumulative fee equal to 2% of gross collected rent. The officers of TX Crist GP LLC are required to issue annual dividends to GHFC based on the net revenues and expenses of the limited liability corporation. In addition, TX Crist GP LLC owns 0.01% of TX Crist Housing LLP. This equity ownership amounts to less than \$10,000 and is not material to the financial operation of GHFC.

Wachovia Affordable Housing Community Development Corporation owns 99.99% of TX Crist Housing LLP. Neither GHFC nor TX Crist GP LLC exercises any control over TX Crist Housing LLP. TX Crist Housing LLP is the borrower of the \$13,800,000 variable rate multifamily housing revenue bonds issued by GHFC. In addition TX Crist Housing LLP is responsible for the apartment management. TX Crist Housing LLP is responsible for paying the developer fees, the 0.01% issuer fee, and the 2% gross collected rent.

The financial statements for TX Crist GP LLC are blended with the GHFC financial statements as a component unit since GHFC exercises significant financial control over TX Crist GP LLC. The financial statements for TX Crist Housing LLP are included with neither TX Crist GP LLC nor GHFC financial statements because neither entity exercises control over TX Crist Housing LLP.

City of Garland, Texas
Notes to the Financial Statements (Continued)

R. GHFC HomeTowne at Garland, LP project

In August 2010, GHFC Garland GP, LLC, a Texas limited liability company, of which GHFC is the sole member entered into a Limited Partnership agreement for the formation of HomeTowne at Garland, LP (the "Partnership"). In August 2011, the Limited Partnership agreement was amended and restated whereby the Partnership would be formed to develop, construct, own, maintain, and operate a 144-unit multifamily residential apartment complex intended for rental to Senior Citizens of low and moderate income, to be known as HomeTowne at Garland, and to be located in Garland, Texas under the terms of the agreement. Under the term of the agreement, the Partnership continues until December 31, 2099 unless the Partnership is sooner dissolved by law.

In August 2011, GHFC entered into an Amended and Restated Ground Lease with the Partnership whereby GHFC leased land to the Partnership for the construction and development of HomeTowne at Garland. GHFC continues to own the land and leases the land to the Partnership over a 75 year period terminating on August 31, 2086.

As of December 31, 2014, GHFC received cash of \$900,000 in up front lease payments that GHFC has recorded as unearned revenue. For the year ended December 31, 2017, GHFC recognized revenue of \$22,148 according to the terms of the lease agreement with an unearned revenue balance of \$780,408.

S. Subsequent Events

On December 20, 2018, the City issued \$9,700,000 General Obligation Refunding Bonds, Series 2016 to refund \$10,530,000 of outstanding Water & Sewer System Revenue Bonds, Series 2009. These bonds were refunded to lower the overall debt service requirements of the City and to pay the cost associated with the issuance of the Bonds. The transaction was a current refunding of outstanding debt.

On December 20, 2018, the City issued \$47,270,000 General Obligation Refunding Bonds, Series 2018 to refund \$51,840,000 of outstanding General Obligation Refunding Bonds, Series 2011A, General Obligation Refunding Bonds, Series 2011B and Combination Tax & Revenue Certificates of Obligation, Series 2009. These bonds were refunded to lower the overall debt service requirements of the City and to pay the cost associated with the issuance of the Bonds. The transaction was a current refunding of outstanding debt.

On February 19, 2019, the City approved an ordinance to call \$12,195,000 of Tax Anticipation Note, Series 2018 to be called on February 20, 2019.

On February 26, 2019, the City issued \$147,610,000 Electric Utility System Revenue Refunding Bonds, New Series 2019 to refund \$162,095,000 of outstanding Electric Utility System Revenue Bonds, Series 2009, 2016 Electric Commercial Paper issue, and the 2018 Electric Commercial Paper issue. These bonds were refunding to lower the overall debt service requirements of the City and to pay the cost associated with the issuance of the Bonds. The transaction was a current refunding of outstanding debt.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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[closing date]

Norton Rose Fulbright US LLP
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IN REGARD to the authorization and issuance of the “City of Garland, Texas, General Obligation Refunding Bonds, Series 2019,” dated December 1, 2019, in the principal amount of \$22,390,000 (the “Bonds”), we have examined into their issuance by the City of Garland, Texas (the “City”), solely to express legal opinions as to the validity of the Bonds, the defeasance and discharge of the City’s outstanding obligations being refunded by the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof (within a maturity). The Bonds mature on February 15 in each of the years specified in an ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the “Ordinance”), unless redeemed prior to maturity in accordance with the terms stated on the Bonds. The Bonds accrue interest from the dates, at the rates, and in the manner and interest is payable on the dates, all as provided in the Ordinance.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings relating to the issuance of the Bonds, including the Ordinance, an Escrow Agreement (the “Escrow Agreement”) between the City and Zions Bancorporation, National Association, Amegy Bank Division (the “Escrow Agent”), a special report of Samuel Klein and Company (the “Accountants”) and an examination of the initial Bond executed and delivered by the City (which we found to be in due form and properly executed); (ii) certifications of officers of the City relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the City and (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such documents and certifications.

BASED ON OUR EXAMINATIONS, IT IS OUR OPINION that, under the applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the City and, when issued in compliance with the provisions of the Ordinance, are valid, legally binding and enforceable obligations of the City payable from the proceeds of an ad valorem tax levied, within the limitations prescribed by law, upon all taxable property in the City, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors’ rights or the exercise of judicial discretion in accordance with the general principles of equity.

2. The Escrow Agreement has been duly authorized, executed and delivered and is a binding and enforceable agreement in accordance with its terms and the outstanding obligations

Page 2 of Legal Opinion of Norton Rose Fulbright US LLP

Re: "City of Garland, Texas, General Obligation Refunding Bonds, Series 2019"

refunded, discharged, paid and retired with the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in a fund with the Escrow Agent, pursuant to the Escrow Agreement and in accordance with the provisions of Texas Government Code, Chapter 1207, as amended. In rendering this opinion, we have relied upon the special report of the Accountants as to the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

3. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Bonds for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of the owners thereof.

WE EXPRESS NO OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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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