

Ratings: Moody's: "___"
Fitch: "___"

NEW ISSUE - BOOK-ENTRY-ONLY

(See "OTHER INFORMATION - RATINGS" herein)

In the opinion of Bond Counsel, under existing tax law, interest on the Certificates is excludable from gross income for federal income tax purposes and the Certificates are not "private activity bonds." See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.

\$31,610,000*
CITY OF GALVESTON, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION,
SERIES 2019

Interest Accrual Date: Date of Delivery

Due: May 1, as shown on the inside cover

PAYMENT TERMS . . . Interest on the \$31,610,000* City of Galveston, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2019 (the "Certificates") will accrue from the Date of Delivery (as defined below) to the initial purchasers thereof, will be payable May 1 and November 1 of each year commencing May 1, 2019, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Certificates 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 Certificates may be acquired in principal denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar (hereinafter defined) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES - BOOK-ENTRY-ONLY SYSTEM"). The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE CERTIFICATES - PAYING AGENT/REGISTRAR").

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

PURPOSE . . . Proceeds from the sale of the Certificates will be used for all or any part of the costs associated with (i) the acquisition, construction and installation of certain improvements to the City's utility system; and (ii) paying certain costs incurred in connection with the issuance of the Certificates (see "THE CERTIFICATES - SOURCES AND USES OF FUNDS").

SECURITY AND SOURCE OF PAYMENT. . . The Certificates constitute direct obligations of the City of Galveston, Texas (the "City") and are payable from a combination of (i) the proceeds of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge of the surplus net revenues of the City's utility system, in an amount not to exceed \$1,000, as provided in the Ordinance (see "THE CERTIFICATES - SECURITY AND SOURCE OF PAYMENT").

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after May 1, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on May 1, 20__, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES - OPTIONAL REDEMPTION").

See Maturity Schedule on the inside cover page

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the underwriters listed below (the "Underwriters") and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Houston, Texas, Bond Counsel (see APPENDIX C, "FORM OF BOND COUNSEL'S OPINION"). Certain legal matters will be passed upon for the City by Hunton Andrews Kurth LLP, Houston, Texas, Disclosure Counsel, and for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Counsel for the Underwriters.

DELIVERY . . . It is expected that the Certificates will be available for delivery through the facilities of DTC on _____, 2019 ("Date of Delivery").

ESTRADA HINOJOSA

PIPER JAFFRAY & CO.

SAMCO CAPITAL MARKETS

*Preliminary, subject to change.

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

MATURITY SCHEDULE

\$31,610,000*

CITY OF GALVESTON, TEXAS

COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2019

\$ _____ Serial Certificates

<u>Due</u> <u>May 1⁽¹⁾</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield⁽²⁾</u>	<u>CUSIP</u> <u>Number⁽³⁾</u>
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\$ _____ Term Certificates

\$ _____ % Term Certificates Due May 1, 20__⁽¹⁾⁽⁴⁾; Priced to yield _____%⁽²⁾; CUSIP No.⁽³⁾: _____

(Interest to accrue from Date of Delivery.)

* Preliminary, subject to change.

- (1) The City reserves the right, at its option, to redeem Certificates having stated maturities on and after May 1, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on May 1, 20__, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.
- (2) The initial price or yield at which the Certificates are priced is established by the Underwriters and may subsequently be changed at the discretion of the Underwriters.
- (3) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. Neither the City, the Financial Advisor, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (4) [The Term Certificates are subject to mandatory sinking fund redemption as set forth in "THE CERTIFICATES-MANDATORY REDEMPTION" herein.]

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended (“Rule 15c2-12”), and in effect on the date hereof, this document constitutes an Official Statement of the City with respect to the Certificates that has been “deemed final” by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

This Official Statement, when further supplemented by adding information specifying the interest rates and certain other information relating to the Certificates, shall constitute a “Final Official Statement” of the City with respect to the Certificates, as that term is defined in Rule 15c2-12.

No dealer, broker, salesman or other person has been authorized by the City or the Underwriters 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 or the Underwriters. This Official Statement does not constitute an offer to sell Certificates 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 Underwriters. 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.

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

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

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

THE CERTIFICATES 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 CERTIFICATES IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

The agreements of the City and others related to the Certificates are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Certificates is to be construed as constituting an agreement with the purchasers of the Certificates. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

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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 Certificates 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 Galveston, Texas (the “City”) is a political subdivision and municipal corporation of the State of Texas (the “State”), located in Galveston County, Texas (see “INTRODUCTION - DESCRIPTION OF CITY” and “APPENDIX A - GENERAL INFORMATION REGARDING THE CITY”).
THE CERTIFICATES	The \$31,610,000* City of Galveston, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2019 (the “Certificates”) are issued as serial certificates maturing on May 1, 20__ through May 1, 20__, inclusive (see “THE CERTIFICATES - DESCRIPTION OF THE CERTIFICATES”).
PAYMENT OF INTEREST	Interest on the Certificates accrues from the date of delivery to the initial purchasers thereof (the “Date of Delivery”), and is payable May 1, 2019, and each November 1 and May 1 thereafter until maturity or prior redemption (see “THE CERTIFICATES - DESCRIPTION OF THE CERTIFICATES”).
AUTHORITY FOR ISSUANCE OF THE CERTIFICATES	The Certificates are issued pursuant to the Constitution and general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and an ordinance adopted by the City Council of the City authorizing the issuance of the Certificates (the “Ordinance”) (see “THE CERTIFICATES - AUTHORITY FOR ISSUANCE OF THE CERTIFICATES”).
SECURITY FOR THE CERTIFICATES	The Certificates constitute direct obligations of the City and are payable from a combination of (i) the proceeds of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge of the surplus net revenues of the City’s utility system, as provided in the Ordinance (see “THE CERTIFICATES - SECURITY AND SOURCE OF PAYMENT”).
REDEMPTION	The City reserves the right, at its option, to redeem Certificates having stated maturities on and after May 1, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on May 1, 20__, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES - OPTIONAL REDEMPTION”).
TAX EXEMPTION	In the opinion of Bond Counsel, under existing law, interest on the Certificates is excludable from gross income for federal income tax purposes and the Certificates are not “private activity bonds.” See “TAX MATTERS” for a discussion of the opinion of Bond Counsel.
USE OF PROCEEDS	Proceeds from the sale of the Certificates will be used for all or any part of the costs associated with (i) the acquisition, construction and installation of certain improvements to the City’s utility system; and (ii) paying certain costs incurred in connection with the issuance of the Certificates (see “THE CERTIFICATES - SOURCES AND USES OF FUNDS”).
RATINGS	The Certificates and the presently outstanding tax supported debt of the City are rated “__” by Moody’s Investors Service, Inc. (“Moody’s”) and “__” by Fitch Ratings (“Fitch”), without regard to credit enhancement (see “OTHER INFORMATION - RATINGS”).

*Preliminary; subject to change

**BOOK-ENTRY-ONLY
SYSTEM**

The definitive Certificates 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 Certificates may be acquired in principal denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the initial paying agent/registrar, The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see “THE CERTIFICATES - BOOK-ENTRY-ONLY SYSTEM”).

PAYMENT RECORD

The City has never defaulted on the payment of its general obligation bonds except during the period of rehabilitation following the disastrous hurricane and flood of 1900 when maturing interest coupons were compromised at \$0.50 on the dollar. The City has never had a payment default on its revenue bonds except for the following: (i) The Marine Park & Recreation Pier Revenue Bonds issued to Reconstruction Finance Corporation, an independent agency of the United States government, in 1941 for which no payments were made and the bonds were subsequently refunded in August 1963; (ii) The City of Galveston Special Assessment Revenue Bonds, Series 2014 (Bayside at Waterman's Public Improvement District) (the “2014 Bonds”) were issued and secured solely by a pledge of assessment revenues derived from the levy of special assessments on all real property within the Bayside at Waterman's Public Improvement District (the “PID”). Such assessments are levied and collected in accordance with the Texas Tax Code. The 2016 annual installments of the assessments were unpaid by the developer as of February 1, 2017, the date on which the 2016 annual installments became delinquent. The outstanding and delinquent 2016 annual installments of the special assessments for assessed parcels within the PID were paid to the City by lienholders and property owners on June 30, 2017, with the applicable penalty, interest, and attorney collection costs. The 2017 annual installments of the assessments were unpaid as of February 1, 2018, the date on which the 2017 annual installments became delinquent. The majority of outstanding and delinquent 2017 annual installments of the special assessments for assessed parcels within the PID were paid to the City by Icon Bank of Texas, N.A. in April, 2018, with the applicable penalty, interest, and attorney collection costs. On October 1, 2018, BancorpSouth Bank acquired Icon Capital Corporation, and its wholly-owned subsidiary Icon Bank of Texas, N.A., and became the primary owner of property within the PID. Of the 135 parcels located within the PID, all but seven parcels are currently owned by BancorpSouth Bank: Two parcels are owned by Memsa Energy LLC; four are owned by MOH Dali Research Services Inc.; and one is owned by Hillary Brawner & Shavano E&P LLC. The PID Bonds are secured solely by the assessments derived from the PID, and are not payable from any other City property, income, or revenues (raised by taxation or other means). Consequently, the City is only obligated to make payments on the PID Bonds to the extent that assessments are collected.

The 2018 annual installments of the assessments have not yet been collected. However, the City has already levied sufficient assessments in previous years to cover the 2019 debt service payments on the PID Bonds. As of January 4, 2019, the City had \$1,075,273.17 of cash available to use for debt service payments on the PID Bonds. The March 2019 interest payment due on the PID Bonds is \$277,250, and the September 2019 principal and interest payment due on the PID Bonds is \$427,250.

For the Reinvestment Zone No. 10 Tax Increment Bonds, Series 1991, (the “TIF Bonds”) which were payable from the tax increments generated in the area of downtown Galveston, the City used reserve funds to make partial payment of principal and interest, however, the City made final payment of principal and interest from tax increments. There was no payment default on the TIF Bonds.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	Outstanding General Obligation ("G.O.") Tax Debt ⁽³⁾	Per Capita G.O. Tax Debt	Ratio of G.O. Tax Debt to Taxable	
						Assessed Valuation	% of Total Tax Collections
2014	49,608	\$4,512,121,691	\$94,963	\$46,815,599	\$975	1.03%	100.4%
2015	50,104	\$4,705,569,435	\$95,352	\$42,073,672	\$839	0.88%	100.9%
2016	50,327	\$5,209,772,080	\$102,951	\$37,793,672	\$751	0.72%	100.9%
2017	50,550	\$5,723,907,557	\$113,233	\$87,483,672	\$1,731	1.53%	100.1%
2018	50,550	\$5,985,661,089	\$118,411	\$79,833,672	\$1,579	1.33%	100.8%

- (1) Source: United States Census Bureau.
- (2) Source: Galveston Central Appraisal District and City Finance Department. Includes assessed valuation attributable to the City's Tax Increment Zones. Fiscal Years 2017 and 2018 includes approximately \$398,247,533 million and \$421,717,798, respectively, of value attributable to the City's Tax Increment Zones. Taxes levied on such property are not available to pay debt service on the Certificates.
- (3) As of September 30, 2018. Includes self-supporting debt.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	For Fiscal Year Ended September 30,				
	2018 ⁽¹⁾	2017 ⁽²⁾	2016	2015 ⁽³⁾	2014
Beginning Balance	\$17,661,266	\$20,629,743	\$18,542,580	\$17,270,248	\$18,244,324
Total Revenue	54,335,062	51,728,350	51,517,593	47,305,840	45,991,805
Total Expenditures	52,364,394	51,784,219	48,606,655	(45,724,155)	(46,566,921)
Other Sources (Uses)	(46,159)	(2,912,608)	(823,775)	(309,353)	(398,960)
Ending Balance	\$19,585,775	\$17,661,266	\$20,629,743	\$18,542,580	\$17,270,248

- (1) Source: The City Finance Department. Unaudited.
- (2) Restated. Audited.
- (3) Beginning in FY 2015, the Infrastructure and Debt Service Fund has been reported separately in the CAFR as a non-major governmental fund. Prior to this, it was included in the General Fund for reporting purposes. This change in reporting caused an adjustment in beginning balance for the General Fund in FY 2015.

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CONSULTANTS AND ADVISORS

Auditor.....	Whitley Penn LLP Certified Public Accountants Houston, Texas
Bond Counsel	Bracewell LLP Houston, Texas
Financial Advisor.....	Hutchinson, Shockey, Erley & Co. Houston, Texas
Disclosure Counsel	Hunton Andrews Kurth LLP Houston, Texas

For additional information regarding the City, please contact:

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CITY OF GALVESTON OFFICIALS AND STAFF

ELECTED OFFICIALS

City Council	Position ⁽¹⁾	Years of Service	Occupation
James D. Yarbrough	Mayor	5	Retired Banker; Bank Consultant
Amy Bly	Council Member	3	Photographer
Craig Brown	Council Member	5	Retired Pediatric Dentist
David Collins	Council Member	1	Publisher
Jason Hardcastle	Council Member	1	Financial Advisor
John Paul Listowski	Council Member	1	Real Estate Development
Jackie Cole	Council Member	1	Veterinarian

⁽¹⁾ Pursuant to the Charter, no Mayor or Councilmember may serve for more than 3 consecutive regular 2-year terms in each office.

SELECTED ADMINISTRATIVE STAFF

Name	Position	Date of Employment	Years of Government Service
Brian Maxwell	City Manager	2011	25
Janelle Williams	City Secretary	2013	27
Donald Glywasky	City Attorney	2013	36
Ross Blacketter	Director of Capital Projects	2013	15
Daniel J. Buckley	Deputy City Manager	2014	33
Michael Loftin	Assistant City Manager for Finance	2014	42
Brandon Cook	Assistant City Manager, Development & Municipal Services	2002	16
Tammy Jacobs	Assistant Director of Finance	2014	9

PRELIMINARY OFFICIAL STATEMENT

RELATING TO

\$31,610,000*

CITY OF GALVESTON

**COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION,
SERIES 2019**

INTRODUCTION

This Official Statement, which includes the cover page and Appendices A and B hereto, provides certain information regarding the issuance of \$31,610,000* City of Galveston, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2019 (the “Certificates”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance of the City Council of the City of Galveston, Texas (the “City”), authorizing the issuance of the Certificates (the “Ordinance”) except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Certificates and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City’s Financial Advisor, Hutchinson, Shockey, Erley & Co., Houston, 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 and first adopted its Home Rule Charter in 1839. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Council members. The term of office is two years, and elections for all offices are held in May of even-numbered years. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, health and social services, culture-recreation, public transportation, public improvements, planning and zoning, and general administrative services. The 2018 estimated population for the City is 50,550.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES

Interest on the Certificates will accrue from the date of their initial delivery (the “Date of Delivery”) to the underwriters listed on the cover page hereof (the “Underwriters”), and mature on May 1 in each of the years and in the amounts shown on the inside cover page hereof. Interest on the Certificates will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on May 1 and November 1, commencing May 1, 2019. The Certificates will be issued only in fully registered form in any integral multiple of \$5,000 of principal amount 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 Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see “BOOK-ENTRY-ONLY SYSTEM”).

AUTHORITY FOR ISSUANCE OF THE CERTIFICATES

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

*Preliminary, subject to change.

PURPOSE

Proceeds from the sale of the Certificates will be used for all or any part of the costs associated with (i) the acquisition, construction and installation of certain improvements to the City's utility system; and (ii) paying certain costs incurred in connection with the issuance of the Certificates (see "SOURCES AND USES OF FUNDS").

SECURITY AND SOURCE OF PAYMENT

The Certificates are secured by the proceeds of a continuing direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City. Additionally, the Certificates are payable from and secured by a limited pledge of the surplus net revenues of the City's utility system, in an amount not to exceed \$1,000, as provided in the Ordinance. See "TAX INFORMATION."

TAX RATE LIMITATION

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 taxable assessed valuation for all City purposes. 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 service, as calculated at the time of issuance. The Home Rule Charter of the City (the "Charter") sets an ad valorem tax rate limit of \$0.70 per \$100 assessed valuation for general operating expenses, including payment of the general obligation tax debt of the City. Pursuant to the Charter, the City Council may not increase the ad valorem tax rate by more than 5% in any one year; provided, however, that the 5% limitation does not prevent increased market valuation and taxation of taxable property when subsequent improvements are made. Further, the City's Charter requires the City to use the proceeds of the City's 1/2 of one percent sales tax to reduce the ad valorem tax rate. See "FINANCIAL INFORMATION - Table 11 - MUNICIPAL SALES TAX HISTORY."

OPTIONAL REDEMPTION

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after May 1, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on May 1, 20__, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. If less than all of the Certificates are redeemed at any time, the maturities (or mandatory sinking fund redemption amounts with respect to Term Certificates, if any) of Certificates to be redeemed shall be selected by the City. If less than all of a maturity of the Certificates is to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot, or other customary method that results in random selection, the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (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 Certificates, 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 Certificates to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATE OR PORTION THEREOF SHALL CEASE TO ACCRUE.

The City reserves the right to give notice of its election or direction to redeem Certificates conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the

Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date or (ii) that the City retains the right to rescind such notice at any time prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected owners. Any Certificates subject to conditional redemption where redemption has been rescinded shall remain outstanding.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by The Depository Trust Company (“DTC”), New York, New York, while the Certificates 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, the Financial Advisor and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

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

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

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

representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates 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 Certificates 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 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates 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.

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

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

Principal and interest payments on the Certificates 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 of each series, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, 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 payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT . . . In reading this Official Statement it should be understood that while the Certificates 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 Certificates, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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 Underwriters.

EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM . . . In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed certificates will be issued to the holders and the Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE CERTIFICATES - TRANSFER, EXCHANGE AND REGISTRATION" below. Discontinuance by the City of DTC's Book-Entry-Only system may require consent of participants under DTC operations and arrangements.

PAYING AGENT/REGISTRAR

The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and

provide a Paying Agent/Registrar at all times until the Certificates are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State, or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Certificates. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Certificates 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, the Certificates 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. Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the principal payment office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. New Certificates 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 Certificates surrendered for exchange or transfer. See “BOOK-ENTRY-ONLY SYSTEM” herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates.

RECORD DATE FOR INTEREST PAYMENT

The record date (“Record Date”) for the interest payable on the Certificates on any interest payment date means the close of business on the 15th day of the preceding month.

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

SOURCES AND USES OF FUNDS

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

<u>Sources of Funds</u>	
Principal Amount	
Net Premium	
Total	\$ _____
<u>Uses of Funds</u>	
Deposit to Construction Fund	
Costs of Issuance	
Underwriters’ Discount	
Total	\$ _____

DEFEASANCE

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

REMEDIES OF HOLDERS OF THE CERTIFICATES

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

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued," in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity.

Because it is not clear that the Texas Legislature has effectively waived the City's immunity from suit for money damages, holders of the Certificates may not be able to bring such a suit against the City for breach of the Certificates or the Ordinance. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods or services to cities.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville, Texas*, 489 S.W. 3d 427 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In its decision, the Court held that since the Local Government Immunity Waiver Act waives governmental immunity in certain breach of contract claims without addressing whether the waiver applies to a governmental function or a proprietary function of a city, the Court could not reasonably read the Local Government Immunity Waiver Act to evidence legislative intent to waive immunity when a city performs a proprietary function.

The City is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or owners of an entity that has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of another federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the limitations related to bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting the rights of creditors of political subdivisions.

TAX INFORMATION

AD VALOREM TAX LAW

The appraisal of property within the City is the responsibility of the Galveston Central Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property, or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

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

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

Under Section 1-b, Article VIII of the Texas Constitution and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than \$3,000 of market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value.

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

Effective January 1, 2018, a partially disabled veteran or the surviving spouse of a partially disabled veteran, if such spouse has not remarried since the death of the disabled veteran and the property was the residence homestead of the surviving spouse when the disabled veteran died and remains the residence homestead of the surviving spouse, is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated to the disabled veterans by a charitable organization at no cost to the disabled veteran, or at some cost to the disabled veteran in the form of a cash payment, a mortgage, or both in an aggregate amount that is not more than 50% of the good faith estimate of the market value of the residence homestead made by the charitable organization as of the date the donation is made. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received. Also, the surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residences homestead, if the surviving spouse has not remarried since the service member's death and said property

was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Also, the surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Effective January 1, 2018, the surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the first responder's death and said property was the first responder's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

In addition to any other exemptions provided by the Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000. Effective until December 31, 2019, the governing body of a political subdivision that adopted such exemption for the 2014 tax year (fiscal year 2015) may not reduce the amount of or repeal such exemption. In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

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

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

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

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

The City has created and may create additional tax increment financing zones, under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. Tax revenues collected on values above the "frozen" value must be deposited in a tax increment fund for the zone (see "TAX INFORMATION -TAX INCREMENT ZONES"). The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn exempts from taxation 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.

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code ("Chapter 380") to establish programs to promote state or local economic development and to stimulate business and commercial activity in the

City. In accordance with a program established pursuant to Chapter 380, the City makes a limited reimbursement of project costs in accordance with the terms of the 380 contract with the developer. The City currently participates in four 380 Agreements with various businesses in the City. The four agreements involve commercial/retail, hotel, indoor storage, and commercial businesses with reimbursement percentages between 25% and 50% and recovery periods that run from January 2018 through December 2038.

Under Article VIII and State law, the governing body of a county, municipality or junior college district, may freeze the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older to the amount of taxes imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes is transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse. If improvements (other than repairs or improvements required to comply with governmental requirements) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax rate limitation may not be repealed or rescinded. The City can make no representations or predictions concerning the impact such tax limitation would have on the City's tax rate, financial condition or ability to make debt service payments.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE

By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per \$100 taxable value for the current year. The City Council will be required to adopt the annual tax rate for the City before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate." Effective 2005, a tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings have been held on the proposed tax rate following notice of such public hearings (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

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

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

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

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

PROPERTY ASSESSMENT AND TAX PAYMENT

Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

PENALTIES AND INTEREST

Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 20% attorney's collection fee is added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF TAX CODE

The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$15,000; the disabled are also granted an exemption of \$10,000. The City has granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000. See TABLE 1 for a listing of the amounts of the exemptions described above.

The City has adopted the tax freeze for citizens who are disabled or are 65 years of age or older, effective January 1, 2005. Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt.

The City does not tax nonbusiness personal property.

The City does not tax freeport property.

The City does tax goods-in-transit.

Galveston County collects taxes for the City. The City does permit split payments, and discounts are not allowed. The City does collect the additional one-half cent sales tax for reduction of ad valorem taxes.

The City has adopted a tax abatement policy.

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. The City awards tax abatements according to state law and does so very sparingly at the present time.

TAX INCREMENT ZONES

The City may establish tax increment reinvestment zones (“Tax Increment Zones”) within defined areas of the City. In accordance with Chapter 311, Texas Tax Code, as amended, the cost of certain improvements within a Tax Increment Zone may be repaid from future tax revenue (“Tax Increment”) contributed by the City (and other taxing entities) that is attributable to the increase in property values within the Tax Increment Zone. The City currently participates in three Tax Increment Zones, and has created a local government corporation, the Galveston Island Redevelopment Authority (the “Authority”), to manage various aspects of its Tax Increment Zones in accordance with separate Tri-Party Agreements between the City, the Authority and each Zone. As of September 30, 2018, the Authority had debt outstanding in the amount of \$2,405,000, which was issued on behalf of certain Tax Increment Zones pursuant to the various Tri-Party Agreements. Such debt is solely secured by Tax Increments from the specific Tax Increment Zones, from which the debt was issued. (For more detailed information, see “APPENDIX B - EXCERPTS FROM THE ANNUAL FINANCIAL REPORT” - Note 1A). Approximately \$421 million of the City’s Certified Taxable Value for Tax Year 2017 and Fiscal Year 2018 is located in the Tax Increment Zones. Of this amount, approximately \$324.2 million of such value represents a decrease in taxable value available to the City attributable to the Tax Increment Zones. Taxes levied on property inside the Tax Increment Zones is compared with the base taxable value present when the zones were created, and paid to the Tax Increment Zones by the City as it is collected. The City anticipates that taxes levied on property attributable to the Tax Increment Zones (i.e. Tax Increments) will total approximately \$1.68 million in Fiscal Year 2018.

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TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2018/2019 Market Valuation (excluding totally exempt property) ⁽¹⁾		\$6,806,281,067
Less Exemptions/Reductions at 100% Market Value:		
Homestead Exemptions	\$382,358,354	
Over 65 Homestead Exemptions	66,336,611	
Disabled Persons	4,473,260	
Disabled Veterans	17,855,431	
Pollution Control	392,258	
House Bill 366	16,994	
Prorated Exempt Property	930,698	
Freeport	6,786,620	
Productivity Loss	36,605,899	
Foreign Trade Zone	n/a	
Homestead Cap Adjustment	158,978,237	
Other	<u>6,682,002</u>	<u>\$681,416,364</u>
2018 Taxable Net Assessed Valuation ⁽²⁾		\$6,124,864,703
General Obligation Debt Payable from Ad Valorem Taxes (as of 9/30/2018):		
Outstanding General Obligation Debt	79,833,672	
Plus: The Certificates*	<u>31,610,000</u>	<u>\$111,443,672</u>
Less: Self Supporting Debt ⁽³⁾	48,702,397	
Less: Interest & Sinking Fund Balance (as of 9/30/2018)	<u>1,617,333</u>	<u>\$29,513,942</u>
Net General Obligation Debt Payable from Ad Valorem Taxes		<u>\$31,131,275</u>
Ratio of Net General Obligation Debt to Taxable Assessed Valuation		0.51%

2018 Estimated Population - 50,550

Per Capita Taxable Assessed Valuation - \$121,164

Per Capita Net Funded Debt - \$639

* Preliminary, subject to change.

(1) Source: Galveston Central Appraisal District.

(2) Includes approximately \$322 million of value attributable to the City's Tax Increment Zones. Taxes levied on value attributable to the City's Tax Increment Zones are not available to pay debt service on the Certificates. See "TAX INFORMATION - TAX INCREMENT ZONES" herein.

(3) Represents general obligation debt in the amounts shown for which repayment is provided from revenues of the City's various revenue systems. Includes a portion of the City's Combination Tax and Revenue Certificates of Obligation, Series 2008, Combination Tax and Revenue Refunding Bonds, Series 2013A, Combination Tax and Revenue Refunding Bonds, Series 2013B, a portion of the General Obligation Refunding Bonds, Series 2014, General Obligation Refunding Bonds, Series 2016, Combination Tax and Revenue Certificates of Obligation, Series 2017, and the Certificates. It is the City's current policy to provide payments for these obligations from the respective system revenues; this policy is subject to change in the future. In the event that such revenues are insufficient to pay the debt service on such obligations, the City has covenanted and is obligated to levy and collect an ad valorem property tax to pay the debt service.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Taxable Assessed Value, Fiscal Year Ending September 30,							
	2018		2017		2016		2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$5,084,650,265	73.37%	\$4,771,109,005	72.80%	\$4,150,976,308	71.04%	\$3,639,962,426	68.73%
Real, Residential, Multi-Family	343,475,449	4.96%	323,248,030	4.93%	258,649,057	4.43%	244,133,387	4.61%
Real, Vacant Lots/Tracts	278,677,033	4.02%	254,507,020	3.88%	239,143,277	4.09%	226,358,311	4.27%
Real, Acreage (Land Only)	36,846,848	0.53%	33,646,263	0.51%	55,745,597	0.95%	55,226,082	1.04%
Real, Farm and Ranch Improvements	19,890,999	0.29%	22,313,346	0.34%	2,651,742	0.05%	2,359,600	0.04%
Real, Commercial and Industrial	690,133,171	9.96%	663,190,986	10.12%	611,800,369	10.47%	597,776,051	11.29%
Real, Oil, Gas & Other Mineral Reserves	1,565,002	0.02%	1,586,322	0.02%	3,211,203	0.05%	6,419,942	0.12%
Real and Intangible Personal, Utilities	98,082,878	1.42%	95,502,072	1.46%	90,864,040	1.55%	93,213,643	1.76%
Tangible Personal, Business	342,398,153	4.94%	351,969,529	5.37%	395,675,393	6.77%	393,225,334	7.43%
Tangible Personal, Other	75,345	0.00%	3,718,335	0.06%	1,822,525	0.03%	4,276,845	0.08%
Real, Inventory	24,785,436	0.36%	23,576,260	0.36%	24,742,295	0.42%	26,138,480	0.49%
Special Inventory	9,103,980	0.13%	9,089,540	0.14%	8,140,995	0.14%	6,585,370	0.12%
Total Appraised Value Before Exemptions	6,929,684,559	0.00%	6,553,456,708	100.00%	5,843,422,801	100.00%	5,295,675,471	100.00%
Less: Total Exemptions/Reductions	944,023,470		829,549,151		633,650,721		590,106,036	
Taxable Assessed Value ⁽¹⁾	<u>\$5,985,661,089</u>		<u>\$5,723,907,557</u>		<u>\$5,209,772,080</u>		<u>\$4,705,569,435</u>	

Category	Taxable Assessed Value, Fiscal Year Ending September 30,	
	Amount	% of Total
Real, Residential, Single-Family	\$3,409,135,465	67.81%
Real, Residential, Multi-Family	238,760,752	4.75%
Real, Vacant Lots/Tracts	231,002,290	4.59%
Real, Acreage (Land Only)	58,666,782	1.17%
Real, Farm and Ranch Improvements	2,318,990	0.05%
Real, Commercial and Industrial	589,283,496	11.72%
Real, Oil, Gas & Other Mineral Reserves	4,979,073	0.10%
Real and Intangible Personal, Utilities	87,709,890	1.74%
Tangible Personal, Business	366,561,293	7.29%
Tangible Personal, Other	4,913,409	0.10%
Real, Inventory	29,721,130	0.59%
Special Inventory	4,720,230	0.09%
Total Appraised Value Before Exemptions	5,027,772,800	100.00%
Less: Total Exemptions/Reductions	515,651,109	
Taxable Assessed Value ⁽¹⁾	<u>\$4,512,121,691</u>	

Source: Galveston Central Appraisal District.

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

⁽¹⁾ For Fiscal Year 2018, includes approximately \$322 million of value attributable to the City's Tax Increment Zones. Taxes levied on value attributable to the City's Tax Increment Zones are not available to pay debt service on the Certificates. See "TAX INFORMATION - TAX INCREMENT ZONES" herein.

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TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	Outstanding General Obligation ("G.O.") Tax Debt ⁽³⁾	Per Capita G.O. Tax Debt	Ratio of G.O. Tax Debt to Taxable Assessed Valuation
2014	49,608	\$4,558,200,878	\$94,963	\$46,815,599	\$975	1.03%
2015	50,104	\$4,777,542,594	\$95,352	\$42,073,672	\$839	0.88%
2016	51,106	\$5,261,435,643	\$102,951	\$37,793,672	\$739	0.72%
2017	50,550	\$5,723,907,557	\$113,233	\$87,483,672	\$1,731	1.53%
2018	50,550	\$5,985,661,089	\$118,411	\$79,833,672	\$1,579	1.33%

⁽¹⁾ Source: United States Census Bureau.

⁽²⁾ Source: Galveston Central Appraisal District and City Finance Department. Includes assessed valuation attributable to the City's Tax Increment Zones. Taxes levied on such property are not available to pay debt service on the Certificates.

⁽³⁾ Includes self-supporting debt. See "TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" and the accompanying footnotes.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate ⁽¹⁾	General Fund ⁽¹⁾	Interest and Sinking Fund ⁽¹⁾	Tax Levy ⁽²⁾	% Current Collections	% Total Collections
2014	0.55400	0.50513	0.04887	\$24,997,154	98.03%	100.4%
2015	0.53389	0.48846	0.04543	\$25,122,565	98.00%	100.9%
2016	0.52900	0.48855	0.04045	\$27,559,694	98.00%	100.9%
2017	0.52600	0.49103	0.03498	\$30,107,754	97.90%	100.1%
2018	0.56100	0.49100	0.07000	\$33,579,559	98.30%	100.8%
2019 est.	0.56100	0.44100	0.05250	\$34,360,240	98.30%	100.4%

Source: Galveston Central Appraisal District and City Finance Department.

⁽¹⁾ Per \$100 of assessed valuation.

⁽²⁾ Of the 2018/2019 tax levy (Fiscal Year 2019), the City is required to transfer approximately \$1.81 million, representing Tax Increment, to the Authority, and such money is not available to pay debt service on the Certificates. See "TAX INFORMATION - TAX INCREMENT ZONES" herein. Tax levy presented considers the estimated impact of the "Over 65 and Disabled Homeowners" tax freeze.

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TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	% of Total	
		2018/2019 Assessed Valuation	Taxable Assessed Valuation
Centerpoint Energy Inc	Electrical Utility	\$46,544,290	0.78%
Fertitta Hospitality Inc	Hotel	43,126,250	0.72%
Beatty Street Properties	Water Transportation	22,453,120	0.38%
TFT Galveston Portfolio Ltd.	Insurance	19,343,040	0.32%
Willie G's Post Oak Inc	Real Estate	18,814,125	0.31%
Silverleaf Resorts Inc.	Real Estate	17,993,200	0.30%
Galveston Island Water Park LP	Water Park	17,248,090	0.29%
Eighteen Seventy Strand Corp.	Hotel and Resort	16,830,000	0.28%
Island Hospitality Inc.	Hotel	15,160,090	0.25%
Galveston Terminals Inc.	Oil & Gas	14,492,704	0.24%
		<u>\$232,004,909</u>	<u>3.88%</u>

Source: Galveston Central Appraisal District.

GENERAL OBLIGATION DEBT LIMITATION

No general obligation debt limitation is imposed on the City under current State law or the Charter; however, State law and the City's Charter limit the City's ad valorem tax rate (see "THE CERTIFICATES - TAX RATE LIMITATION").

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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 bonds (“Tax Debt”) was developed from information contained in “Texas Municipal Reports” published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

	FY 2019 Taxable Assessed Value	Total Outstanding Debt as of 11/30/2018	Estimated % Applicable	Estimated Overlapping Debt
Galveston County	\$28,594,403,929	\$235,674,208	23.85%	\$56,208,299
Galveston County MUD #30	112,161,445	4,695,000	100%	4,695,000
Galveston ISD	6,898,095,865	70,084,999	85.00%	<u>59,572,249</u>
Total Overlapping Debt				\$120,475,548
City of Galveston ⁽¹⁾				<u>\$79,833,672</u>
Total Direct and Overlapping Debt				<u>\$200,309,220</u>
Ratio of Total Direct and Overlapping Tax Debt to FY 2019 Assessed Valuation				3.35%
Total Direct and Overlapping Debt Per Capita				\$3,963

* Preliminary, subject to change. Includes the Certificates. Includes self-supporting debt.

(1) Includes the Certificates and self-supporting debt. Self-supporting debt includes a portion of the City’s General Obligation Refunding Bonds, Series 2014, a portion of the General Obligation Refunding Bonds, Series 2016, the Combination Tax and Revenue Certificates of Obligation, Series 2017, and the Certificates. It is the City’s current policy to provide payments for these bonds from the respective system revenues; this policy is subject to change in the future. In the event that such revenues are insufficient to pay debt service on such bonds, the City has covenanted to levy and collect an ad valorem property tax to pay the debt service.

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DEBT INFORMATION

TABLE 7- PRO FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Year Ended 9/30	Total Outstanding Debt Service ⁽¹⁾	The Certificates*			New Total Outstanding Debt Service	Less: Self- Supporting Debt Service ⁽³⁾	Net Total Debt Service Requirements
		Principal	Interest ⁽²⁾	Total			
2018	10,985,103				10,985,103	6,929,694	4,055,409
2019	10,861,500				10,861,500	7,176,989	3,684,511
2020	10,622,900	1,020,000	569,823	1,589,823	12,212,723	8,637,667	3,575,056
2021	6,683,350	540,000	1,445,200	1,985,200	8,668,550	5,272,307	3,396,243
2022	6,673,200	560,000	1,429,000	1,989,000	8,662,200	5,065,362	3,596,838
2023	6,681,150	580,000	1,406,600	1,986,600	8,667,750	5,066,322	3,601,428
2024	5,132,500	605,000	1,383,400	1,988,400	7,120,900	5,205,142	1,915,758
2025	4,981,950	625,000	1,359,200	1,984,200	6,966,150	5,054,272	1,911,878
2026	4,983,800	655,000	1,334,200	1,989,200	6,973,000	5,059,917	1,913,083
2027	4,985,400	680,000	1,308,000	1,988,000	6,973,400	5,061,317	1,912,083
2028	4,970,850	705,000	1,280,800	1,985,800	6,956,650	5,053,472	1,903,178
2029	4,965,600	740,000	1,245,550	1,985,550	6,951,150	5,053,632	1,897,518
2030	4,959,850	780,000	1,208,550	1,988,550	6,948,400	5,059,492	1,888,908
2031	4,942,950	815,000	1,169,550	1,984,550	6,927,500	5,054,009	1,873,491
2032	4,937,750	860,000	1,128,800	1,988,800	6,926,550	5,058,378	1,868,172
2033	4,921,000	890,000	1,094,400	1,984,400	6,905,400	5,054,752	1,850,648
2034	3,643,300	930,000	1,058,800	1,988,800	5,632,100	4,022,500	1,609,600
2035	3,614,850	965,000	1,021,600	1,986,600	5,601,450	4,017,050	1,584,400
2036	3,597,450	1,005,000	983,000	1,988,000	5,585,450	4,022,450	1,563,000
2037	3,595,400	1,055,000	932,750	1,987,750	5,583,150	4,017,950	1,565,200
2038	2,032,950	1,105,000	880,000	1,985,000	4,017,950	4,017,950	-
2039	2,032,200	1,160,000	824,750	1,984,750	4,016,950	4,016,950	-
2040	2,032,800	1,220,000	766,750	1,986,750	4,019,550	4,019,550	-
2041	2,031,000	1,280,000	705,750	1,985,750	4,016,750	4,016,750	-
2042	2,031,800	1,345,000	641,750	1,986,750	4,018,550	4,018,550	-
2043	2,030,000	1,410,000	574,500	1,984,500	4,014,500	4,014,500	-
2044	2,030,600	1,485,000	504,000	1,989,000	4,019,600	4,019,600	-
2045	2,033,400	1,555,000	429,750	1,984,750	4,018,150	4,018,150	-
2046	2,033,200	1,635,000	352,000	1,987,000	4,020,200	4,020,200	-
2047	-	1,715,000	270,250	1,985,250	1,985,250	1,985,250	-
2048	-	1,800,000	184,500	1,984,500	1,984,500	1,984,500	-
2049	-	1,890,000	94,500	1,984,500	1,984,500	1,984,500	-
	\$ 135,027,803	\$ 31,610,000	\$ 27,587,723	\$ 59,197,723	\$ 194,225,526	\$ 147,059,124	\$ 47,166,402

* Preliminary, subject to change.

(1) Does not include lease/purchase obligations.

(2) Interest estimated at market rates for purposes of illustration.

(3) Self-supporting debt includes a portion of the City's General Obligation Refunding Bonds, Series 2014, a portion of the General Obligation Refunding Bonds, Series 2016, the Combination Tax and Revenue Certificates of Obligation, Series 2017, and the Certificates. In the event that revenues are insufficient to pay the debt service on such obligations, the City has covenanted to levy and collect an ad valorem property tax to pay such debt service.

TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION

General Obligation Net Debt Service Requirements, Fiscal Year Ending September 30, 2019 ⁽¹⁾		\$3,684,511
Interest and Sinking Fund Balance, September 30, 2018	\$1,617,332	
I&S Property Tax Revenue Projection including Delinquent Taxes (99.2 percent of Tax Levy)	\$3,021,700	
Debt service paid from other resources ("Infrastructure & Debt Service Fund")	\$629,362	
Estimated Investment Income	<u>\$40,750</u>	<u>\$5,309,144</u>
Estimated balance, September 30, 2019		<u>\$1,624,633</u>

⁽¹⁾ Excludes self-supporting debt. Self-supporting debt includes a portion of the City’s General Obligation Refunding Bonds, Series 2014, a portion of the General Obligation Refunding Bonds, Series 2016, the Combination Tax and Revenue Certificates of Obligation, Series 2017, and the Certificates. In the event that revenues are insufficient to pay the debt service on such obligations, the City has covenanted to levy and collect an ad valorem property tax to pay such debt service.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT

The City has \$5,508 of unissued bonds remaining from a bond election held in 2001, but the City does not intend to issue any of this remaining amount. The City currently has \$39,400,000 of unissued general obligation debt authorized at the bond election held in 2017.

TABLE 9 - OTHER OBLIGATIONS

The City has the following outstanding capital leases and notes payable as of September 30, 2018:

	<u>Balance Remaining</u>
\$1,531,488 - 2007 note payable due in semi-annual installments of \$69,380 through July 2022, interest at 4.1%	<u>\$506,629</u>
	<u><u>\$506,629</u></u>

PENSION FUND

The City provides pension benefits for substantially all of its full-time employees through three defined benefit pension plans (i.e., the City of Galveston Employees’ Retirement Plan for City Employees, the City of Galveston Employees’ Retirement Plan for Police, and Galveston Firefighters’ Pension Fund). The City makes annual contributions to such plans based on actuarial recommendations consistent with State law. For the year ended September 30, 2017, the City recognized pension expense for the City’s Employees’, Police, and Firefighters’ pension plans are \$2,626,193, \$1,633,432, and \$2,672,452, respectively. For more detailed information concerning the pension plans, see “APPENDIX B - EXCERPTS FROM THE ANNUAL FINANCIAL REPORT” - Note 14.

GASB Statement No. 68 establishes accounting and financial reporting requirements for governments that provide their employees with pensions, including requiring that the City’s funding obligation be calculated and reported as “Net Pension Liability.” The “Net Pension Liability” is the difference between the City’s “Total Pension Liability” and the “Fiduciary Net Position” of each respective pension plan. The Total Pension Liability is the present value of pension benefits that are allocated to current members due to past service by entry age normal actuarial cost method. It includes benefits related to projected salary and service, and cost of living adjustments for police and fire plan retirees that vary in the amounts granted and the frequency and timing of those adjustments. In addition, ad hoc cost of living adjustments are also included in the Total Pension Liability to the extent they are substantively automatic. Under these reporting parameters measured as of December 31, 2016, the Net Pension Liability for the City’s Employees’, Police, and Firefighters’ pension plans are \$15,449,446, \$30,568,642, and \$22,256,044, respectively, representing a fiduciary net position as a percentage of total pension liability of 75%, 39%, and 64%, respectively. The City’s defined benefits plans offer retiree benefits based on years of service and salary, and the City and the plan members jointly bear the financial risk of such plans. As such, the City must fund the plans to pay retirees’ defined benefits despite being underfunded. The City has filed plans with the Texas Pension Review Board to amortize the unfunded amount for the Police and Fire plans in accordance with State law. For more detailed information concerning the pension plans, see “APPENDIX B - EXCERPTS FROM THE ANNUAL FINANCIAL REPORT” - Note 14.

OTHER POST-EMPLOYMENT BENEFITS

In addition to pension benefits, the City provides certain other post-employment benefits for qualified employees (“OPEB”). The costs of these benefits are recognized as expenditures on a modified accrual basis when the underlying claims are paid. Commencing in fiscal year 2009, the City implemented GASB Statement No. 45 “Accounting And Financial Reporting By Employers For Post- Employment Benefits Other Than Pensions.” Under the reporting parameters, the City’s retiree health care plan is 0% funded, with an estimated actuarial liability exceeding actuarial assets by \$7,870,008 at December 31, 2016. (For more detailed information concerning the City’s OPEB, see “APPENDIX B - EXCERPTS FROM THE ANNUAL FINANCIAL REPORT” - Note 13).

FINANCIAL INFORMATION

TABLE 10 - GENERAL FUND REVENUES AND EXPENDITURES HISTORY⁽¹⁾

	For Fiscal Year Ended September 30,				
	2018 ⁽²⁾	2017	2016	2015	2014
Revenues:					
Taxes	47,742,094	45,503,118	42,680,895	39,897,337	39,415,504
Licenses and Permits	1,196,240	1,142,579	1,330,049	1,437,379	1,226,220
Fines and Forfeitures	1,528,690	1,578,365	1,756,605	1,662,803	1,870,688
Charges for Services	235,215	215,312	265,669	305,885	394,800
Interfund Charges for Services	2,093,885	1,434,000	1,393,463	1,370,976	1,393,463
Investment Earnings	319,693	118,666	137,269	101,923	49,082
Intergovernmental	66,921	188,561	188,077	206,678	164,678
Other	1,152,324	763,347	3,047,813	680,543	790,835
Total Revenue	54,335,062	50,943,948	50,799,840	45,663,524	45,305,270
Expenditures:					
General Government	6,973,603	7,254,198	6,833,482	7,035,153	5,838,537
Public Safety	31,472,324	30,194,824	28,425,382	26,419,334	27,148,643
Highways and Roads	3,906,170	3,933,319	3,596,345	3,230,177	3,121,134
Culture and Recreation	2,706,831	2,588,900	2,479,733	2,255,701	2,049,038
Planning and Community Development	2,407,686	2,273,357	2,061,851	2,128,238	2,055,629
Transportation	915,000	870,000	1,195,000	920,087	850,000
Debt Service	-	-	-	-	1,539,731
Other	560,069	1,424,797	1,222,275	1,268,014	2,084,327
Total Expenditures	48,941,683	48,539,395	45,814,068	43,256,704	44,687,039
Excess (Deficiency) of Revenues					
Over Expenditures	5,393,379	2,404,553	4,985,772	2,406,820	618,231
Other Sources (Uses)					
Interfund Transfers In (Out)		(5,363,010)	(3,009,478)	(1,215,224)	(590,159)
Other Sources (Uses)		86,142	25,447	(2,420,419)	1,121,325
Total Other Sources (Uses)	(3,691,170)	(5,276,868)	(2,984,031)	(3,635,643)	531,166
Net change in fund balance	1,702,209	(2,872,315)	2,001,741	(1,228,823)	1,149,397
Fund Balance, Beginning of Year	17,786,895	20,659,210	18,657,469	19,886,292	18,736,895
Fund Balance, End of Year	19,489,104	17,786,895	20,659,210	18,657,469	19,886,292

Source: The City’s audited financial statements.

⁽¹⁾ See “FINANCIAL POLICIES” for a description of certain budgetary procedures, including new requirements imposed by the Charter for Fiscal Year 2013 and thereafter.

⁽²⁾ Beginning in FY 2015, the Infrastructure and Debt Service Fund has been reported separately in the CAFR as a non-major governmental fund. Prior to this, it was included in the General Fund for reporting purposes. This change in reporting caused an adjustment in beginning balance for the General Fund in FY 2015.

TABLE 11 - CONDENSED STATEMENT OF OPERATIONS OF WATERWORKS SYSTEM

	Fiscal Year Ended September 30,				
	2018	2017	2016	2015	2014
<u>Revenues:</u>					
Charges for Sales & Services	\$ 22,550,943	\$ 21,643,242	\$ 20,759,471	\$ 17,326,445	\$ 16,947,120
Insurance Proceeds					
Interest Earned	389,457	126,361	43,393	68,223	19,067
Total Revenues	\$ 22,940,400	\$ 21,769,603	\$ 20,802,864	\$ 17,394,668	\$ 16,966,187
<u>Operating Expenses:</u>					
Personnel Services	\$ 2,438,592	\$ 2,393,916	\$ 2,125,495	\$ 2,131,912	\$ 1,794,870
Materials and Supplies	823,271	890,386	891,766	1,049,999	872,690
Contractual Services	1,263,612	1,148,568	1,122,731	1,132,090	1,148,350
Other Charges	795,424	359,666	568,800	1,031,265	449,823
Surface Water Contract	8,515,323	7,095,932	6,535,423	5,871,645	5,147,230
Operating-Interest Expense*	-	-	5,602	22,425	39,352
Administrative Service Charge	710,000	689,000	669,377	656,252	637,138
Payment in Lieu of Taxes	200,000	200,000	200,000	200,000	200,000
	\$ 14,746,222	\$ 12,777,468	\$ 12,119,193	\$ 12,095,588	\$ 10,289,453
Net Revenue From Operations	\$ 8,194,178	\$ 8,992,135	\$ 8,683,670	\$ 5,299,080	\$ 6,676,734
Contract Revenue Debt Principal Payments	\$ 2,529,278	\$ 2,688,370	\$ 3,421,653	\$ 2,770,674	\$ 2,692,885
Water Net Revenue Available	\$ 5,664,900	\$ 6,303,765	\$ 5,262,017	\$ 2,528,406	\$ 3,983,849
System Customers	23,128	21,945	21,621	22,066	21,942

Excludes depreciation, amortization, bond interest expense and non-operating expenses.

*Prior years restated to exclude bond interest expense.

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TABLE 12 - SEWER FUND STATEMENT OF REVENUES AND EXPENDITURES

<u>Revenues:</u>	Fiscal Year Ended September 30,				
	2018	2017	2016	2015	2014
Charges for Sales & Services	\$ 15,691,596	\$ 15,557,501	\$ 14,304,651	\$ 11,908,379	\$ 12,443,043
Insurance Proceeds					
Other Revenue	4,878		219,402		
Interest Earned	519,690	137,509	78,378	86,901	24,907
Total Revenues	\$ 16,216,164	\$ 15,695,010	\$ 14,602,430	\$ 11,995,280	\$ 12,467,950
<u>Operating Expenses:</u>					
Personnel Services	\$ 4,770,021	\$ 4,272,774	\$ 4,369,987	\$ 4,288,447	\$ 3,772,818
Materials and Supplies	1,417,751	908,557	1,861,407	1,570,114	1,425,040
Contractual Services	1,758,159	2,658,571	1,827,758	1,659,504	1,613,872
Other Charges	551,121	353,852	829,889	572,793	487,538
Operating-Interest Expense*		-	5,205	22,425	39,352
Administrative Service Charge	434,000	421,000	408,546	400,535	388,869
Payment in Lieu of Taxes	200,000	200,000	200,000	200,000	200,000
	\$ 9,131,052	\$ 8,814,754	\$ 9,502,791	\$ 8,713,818	\$ 7,927,489
Net Revenue From Operations	\$ 7,085,112	\$ 6,880,256	\$ 5,099,639	\$ 3,281,462	\$ 4,540,461

Excludes depreciation, amortization, bond interest expense and non-operating expenses.

*Prior years restated to exclude interest on bonded indebtedness.

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TABLE 13 - CONDENSED STATEMENT OF OPERATIONS OF COMBINED UTILITY SYSTEM FUND

	Fiscal Year Ended September 30,				
	2018	2017	2016	2015	2014
<u>Revenues:</u>					
Charges for Sales & Services	\$ 38,242,539	\$ 37,200,743	\$ 35,064,121	\$ 29,234,824	\$ 29,390,163
Insurance Proceeds	-	-	-	-	-
Other Revenue	4,878	-	219,402	-	-
Interest Earned	909,147	263,870	121,771	155,124	43,974
Total Revenues	\$ 39,156,564	\$ 37,464,613	\$ 35,405,294	\$ 29,389,948	\$ 29,434,137
<u>Operating Expenses:</u>					
Personnel Services	\$ 7,208,613	\$ 6,666,690	\$ 6,495,482	\$ 6,420,359	\$ 5,567,688
Materials and Supplies	2,241,022	1,798,943	2,753,173	2,620,113	2,297,730
Contractual Services	3,021,771	3,807,139	2,950,489	2,791,594	2,762,222
Other Charges	1,346,545	713,518	1,398,688	1,604,058	937,361
Surface Water Contract	8,515,323	7,095,932	6,535,423	5,871,645	5,147,230
Operating-Interest Expense*	-	-	10,806	44,850	78,704
Administrative Service Charge	1,144,000	1,110,000	1,077,923	1,056,787	1,026,007
Payment in Lieu of Taxes	400,000	400,000	400,000	400,000	400,000
	\$ 23,877,274	\$ 21,592,222	\$ 21,621,984	\$ 20,809,406	\$ 18,216,942
Net Revenue From Operations	\$ 15,279,290	\$ 15,872,391	\$ 13,783,310	\$ 8,580,542	\$ 11,217,195
Contract Revenue Debt Principal Payments	\$ 2,529,278	\$ 2,688,370	\$ 3,421,653	\$ 2,770,674	\$ 2,692,885
Combined Utility System Net Revenue Available	\$ 12,750,012	\$ 13,184,021	\$ 10,361,657	\$ 5,809,868	\$ 8,524,310
System Customers	23,128	21,945	21,621	22,066	21,942

Excludes depreciation, amortization, bond interest expense and non-operating expenses.

*Prior years restated to exclude bond interest expense.

MUNICIPAL SALES TAX

The City's sales tax rate is 2 cents. The City has adopted the Municipal Sales and Use Tax Act, Chapter 321 Texas Tax Code, together with additional City authorization, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City. The proceeds of such sales tax are not pledged to the payment of the Certificates. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. A Charter amendment was passed by the voters on January 21, 1989, whereby the City is required to offset ad valorem taxes each year with the amount of additional (1/2 cent) sales tax collected in the prior year. The 1/2 cent offset was calculated using a calendar year formula provided by the State of Texas, resulting in ad valorem taxes offset by actual sales tax revenues of \$5,076,732 in FY 2017. The total maximum allowable tax rate of \$0.70 was thus limited to \$0.60 for the current fiscal year. The City does not interpret this amendment as a new tax cap that would restrict the City's ability to meet bond obligations.

Of the 2 cents sales tax, 1 and 1/2 cents is allocated to the General Fund and 1/2 cent is for Industrial Development Corporation ("IDC") projects. Pursuant to an election held within the City in November 2008, the proceeds of the

IDC's 1/2 cent sales tax are divided equally between the following projects: (1) beach remediation, (2) drainage and streets and sewer, (3) economic development and (4) parks and park facilities.

The sales tax breakdown for the City is as follows:

Industrial Development Corporation:	
Beach Remediation	1/8 ¢
Drainage, Streets and Sewer	1/8
Economic Development	1/8
Parks and Park Facilities	1/8
Property Tax Relief	1/2
City Sales & Use Tax	1
State Sales & Use Tax	6 1/4
Total	<u>8 1/4 ¢</u>

TABLE 14 - MUNICIPAL SALES TAX HISTORY

Fiscal Year Ended 9/30	Total Sales Tax Revenue Collected ⁽¹⁾	Industrial Development Corporation ⁽¹⁾	General Fund	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita ⁽²⁾
2014	\$19,235,383	\$4,808,846	\$14,426,537	57.42%	34.44%	\$388
2015	\$19,785,172	\$4,946,292	\$14,838,879	53.84%	31.29%	\$395
2016	\$20,117,164	\$5,029,291	\$15,087,873	50.11%	31.76%	\$394
2017	\$20,263,265	\$5,065,816	\$15,197,449	45.26%	25.71%	\$401
2018	\$21,424,692	\$5,356,173	\$16,068,519	46.76%	-	\$424

⁽¹⁾ Provided by the City.

⁽²⁾ Based on estimated population as shown in Table 3.

FINANCIAL POLICIES

Basis of Accounting . . .The government uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary.

Governmental Funds . . .Used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (Special Revenue Funds), the acquisition or construction of general fixed assets (Capital Projects Funds), and the servicing of general long-term debt (Debt Service Funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

Budgetary Procedures . . .Budgets are adopted on a modified accrual basis. Annual appropriated budgets are adopted for the general, special revenue (except for Industrial Development Corporation Revenue Fund), debt service and enterprise funds. All annual appropriations lapse at fiscal year-end. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances because the commitments will be honored during the subsequent year, but they do not constitute expenditures or liabilities.

As provided by the Charter, after public hearings are held by the City Council to obtain citizen comments, the City Council must approve and adopt the budget by the second regularly scheduled City Council meeting in September, either in the same form as submitted by the City Manager or with changes that the City Council finds to be

necessary or desirable. The budget may not be adopted nor any appropriation made unless the anticipated revenues for the fiscal year equal or exceed the authorized expenditures. The adoption of the budget requires a favorable vote of at least a majority of all the members of the City Council. In the event the budget has not been adopted by the beginning of the fiscal year, the latest budget proposed by the City Manager will take and remain in effect until the budget is finally adopted by the City Council. The proposed budget includes proposed expenditures and the means of financing them. A statement of capital projects planned for the next succeeding five fiscal years, with estimates of their costs is also submitted at this time. The Charter requires that no funds shall be expended nor shall any obligation for the expenditure of money be incurred unless an appropriation exists in the duly adopted budget. During the fiscal year the City Council may transfer any unencumbered appropriation balance or portion thereof from one department to another at any time.

Capital Improvement/Debt Service Account Requirement beginning Fiscal Year 2013...In May 2012 the voters of the City approved an amendment to the Charter, which requires the City to create a "Capital Improvement and/or Debt Service Account" and allocate an equivalent of 1% of the General Fund Operating Budget to such account beginning in Fiscal Year 2013 for either capital improvements or debt service costs. Each fiscal year thereafter, the City expects to allocate an additional 1% of the General Fund Operating Budget to the Capital Improvement and/or Debt Service Account, until the cumulative annual allocation to the account reaches a minimum of 8% of the total General Fund Operating Budget. Thereafter, the City will be required to annually allocate at least 8% of the total General Fund Operating Budget to such account.

INVESTMENTS

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

LEGAL INVESTMENTS

Under State law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is 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) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) (i) that are issued by or through an institution that has its main office or a branch office in the State, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits or, (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State 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 issued for the account of the City; (8) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or

“P-1” or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least “A-1” or “P-1” or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than “AAA” or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than “AAA” or “AAAm” or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two 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 Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All City funds must be invested consistent with a formally adopted “Investment Strategy Statement” that specifically addresses each fund’s investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, 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 City’s investment officers 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, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from City Council.

ADDITIONAL PROVISIONS

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

TABLE 15 - CURRENT INVESTMENTS

Current Investments as of September 30, 2018

Type of Investment	Book Value	Market Value
Agency Securities	\$114,059,938	\$113,894,443
Local Government Pools=TexPool + TexTerm	24,547,160	24,547,160
Money Market Funds=Repurchase	3,950,000	3,950,000
	<u>\$142,557,099</u>	<u>\$142,391,603</u>

TAX MATTERS

The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Certificates should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Certificates.

In the opinion of Bond Counsel, under existing law (i) interest on the Certificates is excludable from gross income for federal income tax purposes and (ii) the Certificates are not “private activity bonds” under the Internal Revenue Code of 1986, as amended (the “Code”), and, as such, interest on the Certificates is not subject to the alternative minimum tax.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Certificates, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond

proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The City has covenanted in the Ordinance that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the excludability of interest on the Certificates from gross income for federal income tax purposes and, in addition, will rely on representations by the City, the City's Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the City, the City's Financial Advisor and the Underwriters, respectively, which Bond Counsel has not independently verified. If the City should fail to comply with the covenants in the Ordinance or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Certificates could become includable in gross income from the date of delivery of the Certificates, regardless of the date on which the event causing such inclusion occurs.

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

Bond Counsel's opinion is based on existing law, which is subject to change. Such opinion is further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinion is not a guarantee of result and is not binding on the Service; rather, such opinion represents Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinion. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates, regardless of the ultimate outcome of the audit.

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

COLLATERAL TAX CONSEQUENCES

Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit, and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Certificates. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Certificates should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Certificates, received or accrued during the year.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM CERTIFICATES

The issue price of all or a portion of the Certificates may exceed the stated redemption price payable at maturity of such Certificates. Such Certificates (the "Premium Certificates") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Certificates in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Certificates in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Certificate by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Certificate that is amortizable each year (or shorter period in the event of a

sale or disposition of a Premium Certificate) is determined using the yield to maturity on the Premium Certificate based on the initial offering price of such Premium Certificate.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Certificates that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Certificates should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Certificate and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Certificates.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT CERTIFICATES

The issue price of all or a portion of the Certificates may be less than the stated redemption price payable at maturity of such Certificates (the "Original Issue Discount Certificates"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Certificate, and (ii) the initial offering price to the public of such Original Issue Discount Certificate constitutes original issue discount with respect to such Original Issue Discount Certificate in the hands of any owner who has purchased such Original Issue Discount Certificate in the initial public offering of the Certificates. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Certificates equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Certificate continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Certificates under the captions "TAX MATTERS - Tax Exemption" and "TAX MATTERS - ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS - COLLATERAL TAX CONSEQUENCES" and "- TAX LEGISLATIVE CHANGES" generally applies, and should be considered in connection with the discussion in this portion of the Official Statement.

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

The foregoing discussion assumes that (a) the Underwriters have purchased the Certificates for contemporaneous sale to the public and (b) all of the Original Issue Discount Certificates have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the inside cover page of this Official Statement. Neither the City nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Certificates will be offered and sold in accordance with such assumptions.

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

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

TAX LEGISLATIVE CHANGES

Current law may change so as to directly or indirectly reduce or eliminate the benefit of the excludability of interest on the Certificates from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors with respect to any proposed, pending or future legislation.

CONTINUING DISCLOSURE OF INFORMATION

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

ANNUAL REPORTS

The City will provide certain updated financial information and operating data to the MSRB annually via EMMA. The information to be updated includes all quantitative financial information and operating data of the general type included in this Official Statement in [Tables 1 through 5 and Tables 7 through 14], and in APPENDIX B. The City will update and provide this information within six months after the end of each fiscal year.

The City may provide updated information in full text or may incorporate by reference other publicly available documents, as permitted by the United States Securities and Exchange Commission (“SEC”) Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements if the City commissions an audit and the audit is completed by the required time. If audited financial statements are not available by the required time, the City will provide such financial statements on an unaudited basis within the required time and audited financial statements when and if they become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

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

EVENT NOTICES

The City will also provide the following to the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, notice of any of the following events with respect to the Certificates: (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 Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of holders of the Certificates, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of successor or additional paying agent/registrars or the change of name of a paying agent/registrars, if material. In addition, the City will provide to the MSRB, in a timely manner, notice of any failure by the City to provide the required annual financial information described above under “Annual Reports” in accordance with this section.

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

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

LIMITATIONS AND AMENDMENTS

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Certificates at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Certificates 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 Certificates in the initial primary offering in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Certificates consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Certificates. 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 Certificates in the primary offering of the Certificates.

If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS

The City has entered into prior undertakings pursuant to which it has agreed to provide certain continuing disclosure information. In the last five years, the City did not provide or failed to timely provide annual updates for certain items. With respect to certain of its general obligation debt, the City filed its “Continuing Disclosure Report” for the Fiscal Years 2013 and 2014 in a timely manner but did not incorporate by reference certain Selected Financial and Operating Information of the Wharves which was required in connection with its Combination Tax and Revenue Refunding Bonds, Series 2013A and 2013B, dated April 15, 2013. The City cured this failure by filing a material event notice on EMMA on January 11, 2016 which incorporated by reference the omitted Selected Financial and Operating Information of the Wharves. These tables were filed and made available in a timely manner pursuant to the requirements of the undertaking of the Wharves debt. With respect to certain of its hotel occupancy tax debt, the City timely filed “Continuing Disclosure Reports” for Fiscal Year 2013 but failed to include three schedules which were filed on September 17, 2014.

In addition, certain of the City’s prior undertakings required the City to file notice of rating changes relating to its underlying ratings and enhanced ratings. With respect to rating changes relating to debt that has been insured, in the past five years there have been numerous rating actions reported by Moody’s Investors Service, S&P Global Ratings and Fitch Ratings affecting the municipal bond insurance companies. The City determined that it was not necessary to file such rating changes since such information was common market knowledge.

As of the date hereof, each of the filings described above have been filed with EMMA. For additional information relating to each of these filings, please refer to EMMA’s website at www.emma.msrb.org. The City has implemented continuing disclosure procedures to help ensure timely compliance with its annual disclosure and event notice obligations in the future.

OTHER INFORMATION

RATINGS

The Certificates and the presently outstanding tax-supported debt of the City are rated “__” by Moody’s Investor Service and “__” by Fitch Ratings, without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Certificates. Neither the Underwriters nor the City has undertaken any responsibility to bring to the attention of the holders of the Certificates any proposed revision or withdrawal of the ratings of the Certificates or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of such ratings could have an adverse effect on the market price of the Certificates.

LITIGATION

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek damages that could impact the operations of the City. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths,; breach of contract and various claims from contractors for additional amounts under construction contracts.

The status of such litigation ranges from an early discovery stage to various levels of appeal of judgments both for and against the City. The amount of damages is limited in certain cases under the Texas Tort Claims Act and is subject to appeal.

However, with respect to the lawsuit styled CDM Smith v. City of Galveston et. al. in the 56th Judicial District Court of Galveston County Texas, the Plaintiff alleged breach of contract. This case has been tried and judgment was issued on November 1, 2018 by the 56th Judicial District Court of Galveston County in favor of the Plaintiff, CDM Smith, in the amount of \$15,725,068.49. However, the City of Galveston and CDM Smith negotiated a settlement of that case for the total payment of \$13,500,000 which has been paid out of available City funds; the final release of judgment is being drafted by the parties.

The City was threatened with litigation by a contractor, Cardinal Construction Inc., for recovery of delay claims experienced during the construction of a pump station for the municipal water supply. The City resolved the claim with a payment out of available City funds of \$2,960,000 to the Contractor. The City will be seeking recovery of those funds from the engineering companies involved with the project.

The City intends to defend itself vigorously against all suits; however, no prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the final outcome of such suits. In litigation where personal injuries or property damages are claimed, the City is a member of a municipal risk pool and has coverage through that pool. Otherwise, the City typically utilizes its general fund to liquidate claims and judgments. The City is also authorized under Texas law to issue bonds to pay any final judgments resulting from lawsuits against the City.

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Certificates are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Certificates be assigned a rating of “A” or its equivalent as to investment quality by a national rating agency. See “RATINGS” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Certificates 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 Certificates are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the approving legal opinion of the Attorney General of the State of Texas to the effect that the Certificates are valid and binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel in substantially the form attached hereto as APPENDIX C. Bond Counsel has reviewed the statements and information appearing in the Official Statement under the captions “THE CERTIFICATES” (except the subcaptions “TAX RATE LIMITATION,” “BOOK-ENTRY-ONLY SYSTEM” and “REMEDIES OF HOLDERS OF THE CERTIFICATES”) and “CONTINUING DISCLOSURE OF INFORMATION” (except the subcaption “COMPLIANCE WITH PRIOR UNDERTAKINGS”) and Bond Counsel is of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Ordinance; further, Bond Counsel has reviewed the statements and information contained in the Official Statement under the captions “TAX MATTERS,” “ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS,” “OTHER INFORMATION - REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE,” “OTHER INFORMATION - LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS,” and “OTHER INFORMATION - LEGAL MATTERS” (except for the last two sentences of the first paragraph) and Bond Counsel is of the opinion that the statements and information contained therein fairly and accurately describe the laws and legal issues contained therein. Bond Counsel has not independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm’s limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained herein. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent upon the sale and delivery of the Certificates. Certain matters will be passed upon for the City by Hunton Andrews Kurth LLP, Houston, Texas, Disclosure Counsel, whose fee is contingent upon the sale and delivery of the Certificates. Certain matters will be passed upon for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Counsel for the Underwriters, whose fee is contingent upon the sale and delivery of the Certificates.

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

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

Hutchinson, Shockey, Erley & Co. is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. The Financial Advisor has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

AUDITED FINANCIAL STATEMENTS

Whitley Penn LLP, the City's independent auditor, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. The report of Whitley Penn LLP relating to City's financial statements for the fiscal year ended September 30, 2017 is included in this Official Statement in APPENDIX B; however, Whitley Penn LLP has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the City, including without limitation any of the information contained in this Official Statement.

UNDERWRITING

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

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

FORWARD-LOOKING STATEMENTS

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 obligations to update any such forward-looking statements. It is important to note that the City's actual results could differ materially from those 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.

CITY OF GALVESTON, TEXAS

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

THE CITY

The City is one of Texas' most historic cities and is a popular tourist and convention destination. Major tourist attractions include "the Elissa," a restored 1877 iron barque, Moody Gardens, Schlitterbahn, the Historic Galveston Island Pleasure Pier, the Strand District, Sea Wolf Park, year-round sport fishing, and miles of beautiful beaches.

HEALTH CARE

The City is home to the University of Texas Medical Branch ("UTMB"). UTMB offers the full range of primary and specialized medical care through a network of Galveston-based hospitals and clinics. The cornerstone to UTMB's future growth in the City is the new Jennie Sealy Hospital, designed to promote a team-based approach to care, offer real-world educational opportunities for students, and provide a state-of-the-art, optimal healing environment for patients and their families. The \$438 million hospital opened for patients in April 2016, and has advanced medical training and patient health for the region. Construction on the adjacent Clinical Services Wing, which houses critical support services for the entire inpatient complex on Galveston Island, opened in June 2015. The combined hospital bed count is approximately 600 beds. UTMB has a \$1.7 billion annual budget.

The new hospital was part of a more than \$1 billion plan for the repair, renovation and new construction of UTMB. UTMB is planning to build a new clinical services wing next to the new Jennie Sealy Hospital and is renovating and modernizing John Sealy Hospital. Since Hurricane Ike (2008) UTMB has opened 25 clinics in 15 locations on the mainland for a total of 40 clinics on and off the island. The medical school also completed construction on a \$62 million outpatient specialty care and surgical center in League City.

The Galveston-based Sealy & Smith Foundation will contribute \$170 million to the cost of construction that will be combined with \$150 million in tuition revenue bonds approved by the Legislature in its last two sessions. The remaining \$118 million in construction costs will come from UTMB, and a plan to raise \$100 million in donations.

UTMB employees over 11,500 people county-wide with 9,000 working in the City.

EDUCATION

Primary Education: Galveston Independent School District covers 94.82 square miles and serves approximately 6,800 students in the City and on Bolivar Peninsula. During the 2017-2018 school year, it will operate three high-school programs, six middle school programs and six elementary schools. There are eight private schools in the City.

Higher Education: Texas A&M University at Galveston; Galveston College; UTMB (four schools and three institutes).

ECONOMY

Major employment sectors in the City are education, tourism and health care. Johnson Space Center, 30 minutes from the City, and many support industries provide opportunities in engineering, electronics and aeronautical research. Approximately 60 miles north on Highway 45 is Houston, the fourth largest city in the United States.

The education industry is a major employer in the City. In addition to the educators that support UTMB's four colleges and two institutes, Galveston Independent School District provides the third largest employment opportunities in the City with a total of approximately 1,361 employees, and Texas A&M University at Galveston has approximately 397 employees.

The City is home to various public and private maritime facilities. The public port authority, known as the Galveston Wharves, and in the maritime industry as the Port of Galveston, is a wholly-owned entity of the City. The port is located on the upper Texas coast at the mouth of Galveston Bay, just 30 minutes steaming time from the open sea.

The wharves have facilities to handle all types of cargo, including containers; automobiles; project, import and export dry bulks; and a variety of break bulk commodities.

The Port of Galveston is home to four year-round home-ported cruise ships. The City is the fourth largest home port in the United States when measured by embarkations. Total revenue passengers was estimated to be 866,000 in 2016, up 3.7% from 2015.

Trains cross Galveston Bay on a bridge adjacent to the Causeway, the major link to the mainland. The San Luis Pass Bridge on the west end and a public ferry service at the east end provide additional access.

Major air service is available at two Houston airports-Hobby Airport, 45 minutes from the City, and Houston Intercontinental Airport, 1.5 hours from the City. The City has a municipal airport, Scholes Field, used for private flying and helicopter services.

TOP EMPLOYERS

Employer	Type of Business	Number of Employees
University of Texas Medical Branch	Medical / Education	8,254
Landry's Seafood Restaurants Inc.	Restaurant	2,788
Galveston County (Island only)	Government	1,340
Galveston ISD	Education	1,100
Moody Gardens	Tourism	1,027
American National Insurance Co.	Insurance	845
City of Galveston	Government	744
Schlitterbahn	Water Park	500
Walmart	Retail	475
International Longshoremen's Assoc.	Union	470

Source: Galveston Economic Development Partnership

LABOR STATISTICS

City of Galveston

Year	Civilian Labor Force	Total Employment	Unemployment	Rate
2011	23,267	21,285	1,982	8.50%
2012	23,746	21,966	1,780	7.50%
2013	24,022	22,378	1,644	6.80%
2014	24,454	23,091	1,363	5.60%
2015	24,169	22,995	1,174	4.90%
2016	24,371	23,059	1,312	5.40%
2017	23,942	22,748	1,194	5.00%
2018 ⁽¹⁾	24,710	23,692	1,018	4.10%

Galveston County

Year	Civilian Labor Force	Total Employment	Unemployment	Rate
2011	148,886	135,890	13,016	8.80%
2012	153,289	141,591	11,686	7.60%
2013	156,153	145,498	10,655	6.80%
2014	157,608	148,773	8,835	5.60%
2015	157,727	149,858	7,869	5.00%
2016	159,251	151,026	8,225	5.20%
2017	161,703	153,291	8,412	5.20%
2018 ⁽¹⁾	166,277	159,655	6,622	4.00%

Source: Texas Workforce Commission.

(1) Through October 2018 (ten months).

APPENDIX B

EXCERPTS FROM THE ANNUAL FINANCIAL REPORT

APPENDIX C

FORM OF BOND COUNSEL'S OPINION