

OFFICIAL STATEMENT

Dated February 7, 2017

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

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described in "TAX MATTERS" herein including the alternative minimum tax consequences for corporations.

THE BONDS ARE NOT DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS



\$8,035,000
CITY OF PLANO, TEXAS
(Collin and Denton Counties)
MUNICIPAL DRAINAGE UTILITY SYSTEM REVENUE
REFUNDING AND IMPROVEMENT BONDS, SERIES 2017

Dated Date: February 1, 2017
Interest Accrues from Delivery Date

Due: May 15, as shown below

PAYMENT TERMS . . . Interest on the \$8,035,000 City of Plano, Texas, Municipal Drainage Utility System Revenue Refunding and Improvement Bonds, Series 2017 (the "Bonds") will accrue from the Delivery Date and will be payable May 15 and November 15 of each year commencing May 15, 2017, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Bonds will be made to the owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued by the City of Plano, Texas (the "City") pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 552 of the Texas Local Government Code, as amended, Chapters 1207 and 1371 Texas Government Code, as amended, Section 9.22 of the City's Home Rule Charter and an ordinance passed by the City Council on January 23, 2017 (the "Bond Authorization"), in which the City Council delegated pricing of the Bonds and certain other matters to "Pricing Officers" who approved the "Pricing Certificate" for the Bonds which contained the final terms of sale and completed the sale of the Bonds (the Bond Authorization and the Pricing Certificate are jointly referred to as the "Ordinance"). The Bonds are special obligations of the City, payable, both as to principal and interest, solely from and secured by a first lien on and pledge of all income of the City's Municipal Drainage Utility System (the "System") and amounts held in each account established for the benefit of Parity Obligations (as hereinafter defined), including, specifically, earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established for the payment and security of the Bonds, the Previously Issued Bonds (defined herein) and other obligations payable solely from and secured only by a lien on and pledge of the Revenues of the System, but excluding restricted gifts and grants and any amounts received from drainage charges that are dedicated by ordinance for funding future system projects (collectively, the "Revenues"). **The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation (see "THE BONDS - Authority for Issuance" and "THE BONDS - Security and Source of Payment").**

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (i) fund various drainage and erosion projects throughout the City, (ii) refund a portion of the City's outstanding municipal drainage utility system revenue debt described in Schedule I attached to this Official Statement (the "Refunded Bonds") for debt service savings, (iii) fund a debt service reserve fund, and (iv) to pay costs of issuance associated with the sale of the Bonds.

MATURITY SCHEDULE

CUSIP Prefix⁽¹⁾: 727219

Principal Amount	Maturity (5/15)	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾	Principal Amount	Maturity (5/15)	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾
\$ 185,000	2017	2.000%	0.850%		\$ 500,000	2027	4.000%	2.670%	
340,000	2018	2.000%	1.000%		525,000	2028	4.000%	2.860% ⁽²⁾	
345,000	2019	3.000%	1.260%		375,000	2029	4.000%	3.040% ⁽²⁾	
400,000	2020	3.000%	1.450%		345,000	2030	3.250%	3.370%	
410,000	2021	2.750%	1.640%		355,000	2031	3.375%	3.450%	
425,000	2022	2.750%	1.840%		370,000	2032	5.000%	3.030% ⁽²⁾	
430,000	2023	2.750%	2.010%		385,000	2033	4.000%	3.510% ⁽²⁾	
445,000	2024	4.000%	2.200%		405,000	2034	4.000%	3.550% ⁽²⁾	
465,000	2025	4.000%	2.390%		420,000	2035	4.000%	3.600% ⁽²⁾	
475,000	2026	4.000%	2.570%		435,000	2036	4.000%	3.640% ⁽²⁾	

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Financial Advisor nor the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) Yield shown to first optional redemption date of May 15, 2027.

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

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

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on March 14, 2017 (the "Delivery Date").

BAIRD

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

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

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

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

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

NONE OF THE CITY, ITS FINANCIAL ADVISOR, NOR THE UNDERWRITER MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY ONLY SYSTEM.

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

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

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

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

OFFICIAL STATEMENT SUMMARY

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

THE CITY	The City of Plano, Texas (the "City") is a political subdivision and home-rule municipal corporation of the State of Texas (the "State"), located in Collin and Denton Counties, Texas. The City covers approximately 72 square miles (see "INTRODUCTION - Description of the City").
THE BONDS	The \$8,035,000 Municipal Drainage Utility System Revenue Refunding and Improvement Bonds, Series 2017 will mature serially on May 15 of each year in the years 2017 through 2036 (see "THE BONDS - Description of the Bonds").
PAYMENT OF INTEREST	Interest on the Bonds accrues from the Delivery Date, and is payable May 15, 2017, and each November 15 and May 15 thereafter until maturity or prior redemption (see "THE BONDS - Description of the Bonds" and "THE BONDS - Optional Redemption").
AUTHORITY FOR ISSUANCE	The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 552 of the Texas Local Government Code, as amended, Chapters 1207 and 1371, Texas Government Code, as amended, Section 9.22 of the City's Home Rule Charter and an ordinance passed by the City Council on January 23, 2017 (the "Bond Authorization"), in which the City Council delegated pricing of the Bonds and certain other matters to "Pricing Officers" who approved the "Pricing Certificate" for the Bonds which contained the final terms of sale and completed the sale of the Bonds (the Bond Authorization and the Pricing Certificate are jointly referred to as the "Ordinance").
SECURITY FOR THE BONDS	The Bonds constitute special obligations of the City, payable, both as to principal and interest, solely from and, together with the outstanding Parity Obligations (defined herein), secured by a first lien on and pledge of the Revenues of the City's Municipal Drainage Utility System (the "System"). The Revenues pledged to secure the Bonds and other Parity Obligations include all income of the System and amounts held in each account established for the benefit of the Parity Obligations, including, specifically, earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established for the payment and security of the Bonds, the Previously Issued Bonds (defined herein) and other obligations payable solely from and secured only by a lien on and pledge of the Revenues of the System, but excluding restricted gifts and grants and any amounts received from drainage charges that are dedicated by ordinance for funding future System projects. The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation (see "THE BONDS - Security and Source of Payment").
REDEMPTION	The City reserves the right, at its option, to redeem Bonds having stated maturities on and after May 15, 2028, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on May 15, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption").
TAX EXEMPTION	In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described in "TAX MATTERS", including the alternative minimum tax consequences for corporations.
USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used to (i) fund various drainage and erosion projects throughout the City, (ii) refund a portion of the City's outstanding municipal drainage utility system revenue debt described in Schedule I attached to this Official Statement (the "Refunded Bonds") for debt service savings (iii) fund a debt service reserve fund and (iv) to pay costs of issuance associated with the sale of the Bonds.
RATINGS	The Bonds and the presently outstanding municipal drainage utility system revenue debt of the City are rated "AAA" by S&P Global Ratings, a division of S&P Global Inc. ("S&P"), and "Aa1" by Moody's Investors Service, Inc. ("Moody's") (see "OTHER INFORMATION - Ratings").
BOOK-ENTRY-ONLY SYSTEM	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Bonds will be made to the Beneficial Owners ("Beneficial Owner") thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds (see "THE BONDS - Book-Entry-Only System").
PAYMENT RECORD	The City has never defaulted on payment of its bonded indebtedness.

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Term Expires
Harry LaRosiliere Mayor, Place 6	May, 2017
Lissa Smith Mayor Pro Tem, Place 4	May, 2017
Ben Harris Deputy Mayor Pro Tem, Place 2	May, 2017
Angela Miner Councilmember, Place 1	May, 2019
Rick Grady Councilmember, Place 3	May, 2019
Ron Kelley Councilmember, Place 5	May, 2019
Tom Harrison Councilmember, Place 7	May, 2019
David Downs Councilmember, Place 8	May, 2017

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service	Total Governmental Service
Bruce D. Glasscock	City Manager	6 Years	48 Years
Lisa C. Henderson	City Secretary	3 Years	14 Years
Denise Tacke	Director of Finance	9 Years	17 Years
Paige Mims	City Attorney	3 Years	21 Years

CONSULTANTS AND ADVISORS

Auditors KPMG LLP
Dallas, Texas

Bond Counsel Norton Rose Fulbright US LLP
Dallas, Texas

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

For additional information regarding the City, please contact:

Denise Tacke Director of Finance City of Plano P.O. Box 860358 Plano, TX 75086 (972) 941-5233	or	Laura Alexander David Medanich FirstSouthwest, a Division of Hilltop Securities Inc. 777 Main Street, Suite 1200 Fort Worth, TX 76102 (817) 332-9710
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OFFICIAL STATEMENT
RELATING TO
\$8,035,000
CITY OF PLANO, TEXAS
MUNICIPAL DRAINAGE UTILITY SYSTEM REVENUE REFUNDING AND IMPROVEMENT BONDS, SERIES 2017

INTRODUCTION

This Official Statement, which includes the Schedule and the Appendices hereto, provides certain information regarding the issuance of \$8,035,000 City of Plano, Texas, Municipal Drainage Utility System Revenue Refunding and Improvement Bonds, Series 2017 (the "Bonds"). The Bonds are authorized for issuance under an ordinance adopted by the City Council of the City of Plano, Texas (the "City") on January 23, 2017 (the "Bond Authorization"). In the Bond Authorization, as permitted by the provisions of Chapters 1207 and 1371, Texas Government Code, as amended ("Chapter 1207" and "Chapter 1371", respectively), the City Council delegated the authority to designated officers (the "Pricing Officers") of the City to establish the terms and details of the Bonds and to effect the sale of the Bonds through the Pricing Officers' execution of a "Pricing Certificate" for the Bonds (the Bond Authorization and Pricing Certificate for the Bonds are jointly referred to as the "Ordinance"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance. Reference is made to "SELECTED PROVISIONS OF THE ORDINANCE" which contains defined terms and selected provisions of the Ordinance that are summarized under "THE BONDS."

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

DESCRIPTION OF THE CITY . . . The City is a political subdivision and home rule municipal corporation of the State of Texas, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City first adopted its Charter on June 10, 1961, and operates under the Council/Manager form of government with a City Council comprised of the Mayor and seven Council Members. At an election held on November 8, 2011, City of Plano voters approved a charter amendment revising Council Member terms of office to four years and establishing staggered, odd-numbered year elections. Council Members in office at the time of the election were held over. The Mayor and three other Council Members' terms expire in 2017 and the other four Council Members' terms expire in 2019. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: police, fire and emergency medical services, including all facilities, equipment and personnel, highways and streets, water and sanitary sewer utilities, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The 2010 Census population of the City was 259,841 and the City's estimated 2017 population is 274,960. The City covers approximately 72 square miles.

PLAN OF FINANCING

PURPOSE . . Proceeds from the sale of the Bonds will be used to (i) fund various drainage and erosion projects throughout the City, (ii) refund a portion of the City's outstanding municipal drainage utility system revenue debt described in Schedule I attached to this Official Statement (the "Refunded Bonds") for debt service savings, (iii) fund a debt service reserve fund, and (iv) to pay costs of issuance associated with the sale of the Bonds.

REFUNDED BONDS . . . The principal and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates and the respective redemption dates of such Refunded Bonds, from funds to be deposited pursuant to an escrow agreement with respect to the Bonds (the "Escrow Agreement") between the City and The Bank of New York Mellon Trust Company, N.A. (the "Escrow Agent"). The Ordinance provides that from a portion of the proceeds of the sale of the Bonds received from the Underwriter, the City will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds on their respective principal and interest payment dates and their redemption dates. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

Grant Thornton LLP, certified public accountants, a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriter thereof the mathematical accuracy of the schedules that demonstrate the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Funds, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such maturing principal of and interest on the Federal Securities will not be available to pay the Bonds (see "OTHER INFORMATION– Verification of Arithmetical and Mathematical Computations").

By deposit of the Federal Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of all the Refunded Bonds in accordance with the law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the report of Grant Thornton LLP, certified public accountants, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Federal Securities and any cash held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the City payable from Revenues of the System nor for the purpose of applying any limitation on the issuance of debt.

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Bonds, if for any reason, the cash balance on deposit or scheduled to be on deposit in the Escrow Fund be insufficient to make such payment.

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

<u>Sources of Funds</u>	
Par Amount of Bonds	\$ 8,035,000.00
Net Original Issue Premium	512,506.95
Total Sources of Funds	<u>\$ 8,547,506.95</u>
<u>Uses of Funds</u>	
Deposit to Escrow Fund	\$ 1,976,630.11
Deposit to Project Fund	6,350,000.00
Deposit to Debt Service Reserve Fund	73,393.12
Costs of Issuance ⁽¹⁾	147,483.72
Total Uses of Funds	<u>\$ 8,547,506.95</u>

(1) Including Underwriters Discount.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated February 1, 2017 (the "Dated Date") and mature on May 15 in each of the years and in the amounts shown on the cover page hereof. Interest will accrue from the Delivery Date, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on May 15 and November 15, commencing May 15, 2017, until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State, particularly, Chapter 552 of the Texas Local Government Code, as amended, Chapters 1207 and 1371, Texas Government Code, as amended, Section 9.22 of the City's Home Rule Charter and the Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . In the Ordinance, the City has irrevocably pledged to the payment of the Bonds, all income of the City's Municipal Drainage Utility System (the "System") and amounts held in each account established for the benefit of Parity Obligations (as hereinafter defined), including, specifically, earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established for the payment and security of the Bonds, the Previously Issued Bonds (defined herein) and other obligations payable solely from and secured only by a lien on and pledge of the Revenues of the System, but excluding restricted gifts and grants and any amounts received from drainage charges that are dedicated by ordinance for funding future system projects (collectively, the "Revenues"). The Bonds are secured on a parity with the currently outstanding bonded indebtedness of the System (the "Previously Issued Bonds") and any additional parity obligations issued or incurred by the System in the future and secured by a first lien on the Revenues (the "Additional Bonds", and, collectively with the Bonds and the Previously Issued Bonds, the "Parity Obligations"). The lien created on the Revenues shall be prior in right and claim as to any other indebtedness, liability or obligation of the System. The City has outstanding Previously Issued Bonds secured by and payable from Revenues on a parity with the Bonds as follows:

Dated Date	Outstanding Debt ⁽¹⁾	Issue Description
5/1/2007	\$ 95,000	Municipal Drainage Utility System Revenue Bonds, Series 2007
1/15/2008	95,000	Municipal Drainage Utility System Revenue Bonds, Series 2008
1/15/2009	1,175,000	Municipal Drainage Utility System Revenue Refunding and Improvement Bonds, Series 2009
1/15/2010	4,590,000	Municipal Drainage Utility System Revenue Refunding and Improvement Bonds, Series 2010
5/1/2015	5,925,000	Municipal Drainage Utility System Revenue Refunding Bonds, Series 2015
Total	<u>\$ 11,880,000</u>	

(1) As of December 1, 2016. Excludes the Refunded Bonds.

The Bonds are not a charge upon any other income or revenues of the City and **shall never constitute an indebtedness or pledge of the general credit or taxing powers of the City.** The Ordinance does not create a lien or mortgage on the System, except with respect to the Revenues, and any judgment against the System may not be enforced by levy and execution against any property owned by the City.

THE RESERVE FUND . . . The City has covenanted to maintain a debt service reserve fund (the "Reserve Fund") for the Previously Issued Bonds, the Bonds and any Additional Bonds issued after the issuance of the Bonds for so long as the Previously Issued Bonds are outstanding. While the City is required to maintain the Reserve Fund, such Reserve Fund shall be maintained in an amount at least equal to the average annual debt service requirements of the outstanding Parity Obligations (the "Required Reserve"). The amounts on deposit in the Reserve Fund shall be used to pay principal of and interest on the Parity Obligations when due to the extent that other funds available for such purposes are insufficient. No payment will be required to be made into the Reserve Fund while there is on deposit therein a sum equal to the Required Reserve; except that whenever the Reserve Fund is reduced below the Required Reserve, payments into the Reserve Fund shall be made on or before the 10th day of each month from the Revenues in amounts sufficient to restore to the Required Reserve within 60 months. In the Ordinance, the City has reserved the right to discontinue the Reserve Fund for the Previously Issued Bonds dated May 1, 2015 and thereafter, and any Additional Bonds issued after the issuance of the Bonds at such time as the Previously Issued Bonds are no longer outstanding. See "SELECTED PROVISIONS OF THE ORDINANCE – SECURITY FOR THE BONDS – Reserve Fund".

ISSUANCE OF ADDITIONAL PARITY INDEBTEDNESS . . . The Ordinance provides that the City may issue Additional Bonds if it meets certain conditions specified in the Ordinance, including the following: (i) the officer of the City then having primary responsibility for the financial affairs of the City must execute a certificate stating (a) that, to the best of such officer's knowledge and belief, the City is not in material default with respect to any covenant, obligation or agreement contained in any ordinance or other proceeding relating to any obligations of the City payable from and secured by a lien on and pledge of the Revenues and (b) either (1) payments into all special funds maintained for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of the Revenues of the System have been made and that the amounts on deposit in such special funds equal or exceed the amounts then required to be on deposit therein; or (2) the application of the proceeds of sale of such obligations then being issued will cure any such deficiency; (ii) the Additional Bonds shall be scheduled to mature or be payable as to principal on May 15 or November 15 (or both) in each year; (iii) the City shall provide a certificate or opinion of a Certified Public Accountant to the effect that, according to the books and records of the City, the Net Revenues for the last completed Fiscal Year, or for 12 consecutive months out of the last 18 months immediately preceding the month in which the ordinance authorizing the issuance of the then proposed Additional Bonds is passed, are at least equal to 1.25 times the Average Annual Debt Service for all Outstanding Parity Obligations; and (iv) the Reserve Fund will contain the Required Reserve amount on the date of issuance of the proposed Additional Bonds. If the City discontinues the Reserve Fund as provided in the Ordinance, the requirement in (iv) in the preceding sentence shall not apply. To the extent the City issues Additional Bonds for the purpose of achieving debt service savings, the requirement in (iii) shall not apply. See "SELECTED PROVISIONS OF THE ORDINANCE" for complete terms and conditions to be satisfied for the issuance of Additional Bonds.

ISSUANCE OF OBLIGATIONS OF INFERIOR LIEN AND PLEDGE . . . The City has the right to issue obligations payable from and secured by a lien on and pledge of the Revenues of the System, junior and subordinate in rank and dignity to the lien and pledge securing the payment of the Bonds and the Previously Issued Bonds, as may be authorized by the laws of the State.

RATES . . . The City has covenanted in the Ordinance that it will at all times charge and collect rates for services rendered by the System sufficient to pay all Operating and Maintenance Expenses of the System, to pay interest on and the principal of the Parity Obligations, and to establish and maintain the special funds provided for the benefit of the Parity Obligations in the Ordinance and in the ordinances authorizing the issuance of the Parity Obligations. The City has further covenanted that, if the System should become legally liable for any other indebtedness, it will fix and maintain rates and collect charges for the services of the System sufficient to discharge such indebtedness.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after May 15, 2028, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on May 15, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent to the registered owners of the Bonds to be redeemed, in whole or in part, by United States mail, first-class, postage prepaid, at the physical address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. In the Ordinance, the City reserves the right in the case of an optional redemption to give notice of its election or direction to redeem Bonds 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) 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 Bonds subject to conditional redemption where redemption has been rescinded shall remain Outstanding, and the rescission shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default. NOTICE SENT AS DESCRIBED HEREIN SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN NOTWITHSTANDING ONE OR MORE REGISTERED OWNERS MAY HAVE FAILED TO RECEIVE SUCH NOTICE.

DEFEASANCE . . . The Ordinance provides that the City may discharge its obligations to the registered owners of any or all of the Bonds, as applicable, to pay principal and interest thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Paying Agent/Registrar or other lawfully authorized entity a sum of money equal to the principal of and all interest to accrue on such Bonds to maturity or redemption, or (ii) by depositing with the Paying Agent/Registrar or other lawfully authorized entity amounts sufficient, together with the investments earnings thereon, to provide for the payment and/or redemption of such Bonds; provided that such deposits may be invested and reinvested only in (a) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding obligations, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding obligations to refund the Bonds, as applicable, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The foregoing obligations may be in book-entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds, as the case may be. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for the payment to the registered owners of such Bonds at the date of maturity or prior redemption of the full amount to which such owner would be entitled and for giving notice of redemption as provided in the Ordinance, as applicable. See "SELECTED PROVISIONS OF THE ORDINANCE - Discharge of Bonds."

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

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

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

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount or maturity amount as applicable, 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 Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar 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 nor its nominee, the Paying Agent/Registrar of each series, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, 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 of each series, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

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

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 Underwriter.

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 Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE BONDS - Transfer, Exchange and Registration" below.

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

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

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

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

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

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

THE SYSTEM

MUNICIPAL DRAINAGE UTILITY SYSTEM . . . Chapter 552 of the Texas Local Government Code (formerly codified as Chapter 402 of the Texas Local Government Code) provides the authority for municipalities to establish a drainage utility system and to develop a schedule of drainage charges within the City. This enabling legislation was created in order to provide municipalities a funding source to address Environmental Protection Agency ("EPA") mandated stormwater quality requirements, as well as local drainage system operating and maintenance costs. Additionally, the revenue from drainage fees can also be pledged against the issuance of bonds for drainage improvement purposes.

The City established a Municipal Drainage Utility Fund in August 1992, to capture revenues and expenditures for services related to management of the municipal drainage activity, in response to EPA-mandated stormwater runoff and treatment requirements. The City's municipal drainage utility system (the "System") consists of catch basins, channels, conduits, creeks, culverts, detention ponds and similar methods to carry and divert surface water into natural or artificial watercourses. Funds of the System are reported as an individual enterprise funds of the City.

RATES . . . A rate structure was designed to fund on-going maintenance of stream channels and drainageways and a comprehensive stormwater management study. The primary source of revenue for the System is a drainage fee which is the charge imposed to recover the cost of the service furnishing drainage for any benefitted property. The City may charge a lot or tract of benefitted property for drainage service on any basis other than the value of the property, but the basis must be directly related to drainage and the terms of the charge, and any classification of the benefitted properties in the City must be nondiscriminatory, equitable, and reasonable. Drainage fee revenues for fiscal year ended September 30, 2016 amounted to \$7,307,311 and total System operating expenses, excluding depreciation, equaled \$3,523,749. The adopted budget of the City for fiscal year 2017 projects System revenues of approximately \$7.3 million and total operating expenditures (excluding payment of debt service) of approximately \$3.7 million.

BILLING . . . Although the System is an individual enterprise of the City, the City bills drainage charges, identified separately, with the City's other public utility billings including water charges, wastewater charges, and refuse collection fees. Customers must pay for all utility services tendered and billed. Nonpayment or partial payment of the customer's utility billing may result in the same penalties and collection procedures undertaken for any utility billing, including assessment of a 10% penalty against any unpaid balance after the due date. After two months of nonpayment of the utility bill, a customer is subject to disconnection of service (i.e., water, sewer and refuse collection).

There is a three-tiered rate structure for residential properties based on the square footage of impervious area of the property; each tier contains a fixed monthly fee as shown on Table 1. Commercial drainage charge are currently set at \$0.075 per one hundred square feet of total impervious area, with a minimum drainage charge of \$3.10 per month.

TABLE 1 – DRAINAGE UTILITY RATES (EFFECTIVE NOVEMBER 1, 2014) ⁽¹⁾

Residential	Size of Impervious Areas ⁽²⁾	Monthly Fee
R-1	Less than 4,750 Square Feet	\$3.10
R-2	4,750 Square Feet to 6,450 Square Feet	\$4.15
R-3	Greater than 6,450 Square Feet	\$5.60
All Non-residential		\$0.075 per 100 Square Feet of total impervious area of improved property. Includes 10% additional area for the street and sidewalk adjustment. The minimum fee shall be \$3.10, per property.

(1) Source: City staff.

(2) Includes footprint of first floor, patio, garage, and a pro rata portion adjustment of three thousand (3,000) square feet for streets alleys, and sidewalks.

In setting the rates for drainage services, the City has based its calculations on an inventory of impervious areas of all improved properties within the service area. The inventory is stored in the City's Property Management System which is maintained in the office of the City Engineer.

DEBT INFORMATION

TABLE 2 PRO-FORMA - MUNICIPAL DRAINAGE SYSTEM REVENUE DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 9/30	Outstanding Debt ⁽¹⁾			The Bonds ⁽²⁾			Total Outstanding Debt	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		
2017	\$ 1,775,000	\$ 428,003	\$ 2,203,003	\$ 185,000	\$ 48,551	\$ 233,551	\$ 2,436,554	
2018	1,500,000	341,456	1,841,456	340,000	282,831	622,831	2,464,288	
2019	1,335,000	302,031	1,637,031	345,000	276,031	621,031	2,258,063	
2020	1,135,000	268,056	1,403,056	400,000	265,681	665,681	2,068,738	
2021	1,170,000	229,194	1,399,194	410,000	253,681	663,681	2,062,875	43.16%
2022	900,000	189,131	1,089,131	425,000	242,406	667,406	1,756,538	
2023	935,000	158,944	1,093,944	430,000	230,719	660,719	1,754,663	
2024	680,000	125,219	805,219	445,000	218,894	663,894	1,469,113	
2025	695,000	101,806	796,806	465,000	201,094	666,094	1,462,900	
2026	490,000	73,594	563,594	475,000	182,494	657,494	1,221,088	72.99%
2027	390,000	53,394	443,394	500,000	163,494	663,494	1,106,888	
2028	300,000	37,906	337,906	525,000	143,494	668,494	1,006,400	
2029	315,000	24,963	339,963	375,000	122,494	497,494	837,456	
2030	260,000	11,050	271,050	345,000	107,494	452,494	723,544	
2031	-	-	-	355,000	96,281	451,281	451,281	89.88%
2032	-	-	-	370,000	84,300	454,300	454,300	
2033	-	-	-	385,000	65,800	450,800	450,800	
2034	-	-	-	405,000	50,400	455,400	455,400	
2035	-	-	-	420,000	34,200	454,200	454,200	
2036	-	-	-	435,000	17,400	452,400	452,400	100.00%
	<u>\$ 11,880,000</u>	<u>\$ 2,344,747</u>	<u>\$ 14,224,747</u>	<u>\$ 8,035,000</u>	<u>\$ 3,087,739</u>	<u>\$ 11,122,739</u>	<u>\$ 25,347,486</u>	

(1) Excludes the Refunded Bonds.

(2) Average life of the issue – 9.981 years. Interest on the Bonds has been calculated at the rates stated on the cover page hereof.

ANTICIPATED ISSUANCE OF ADDITIONAL MUNICIPAL DRAINAGE UTILITY SYSTEM REVENUE BONDS . . . The City anticipates the issuance of an additional \$3.6 million in municipal drainage utility system revenue bonds in the second quarter of 2018.

PENSION FUND . . . Texas Municipal Retirement System ("TMRS") provides retirement, disability and death benefits for City employees. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

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

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150% or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his or her salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

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

Deposit rate	7%
Matching Ratio (City to Employee)	2:1
A member is vested after	5 years

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City are: 5 years of service and age 60 or 20 years of service and any age.

As of the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	1,011
Inactive Employees Entitled to But Not Yet Receiving Benefits	844
Active Employees	<u>2,243</u>
	4,098

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rate for the City was 18.11% in 2016. The City's contributions to TMRS for fiscal year 2016, were \$26,364,866, and were equal to the required contributions.

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

The TPL in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

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

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

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new

portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic equity	17.50%	4.55%
International equity	17.50%	6.10%
Core fixed income	10.00%	1.00%
Non-core fixed income	20.00%	3.65%
Real return	10.00%	4.03%
Real estate	10.00%	5.00%
Absolute return	10.00%	4.00%
Private equity	5.00%	8.00%
	100.00%	

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

Changes in the Net Pension Liability . . .

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2014	\$ 848,866,792	\$ 759,944,419	\$ 88,922,373
Changes for the year:			
Service cost	25,341,004	-	25,341,004
Interest (on the total pension liability)	59,290,515	-	59,290,515
Difference between expected and actual experience	(6,117,445)	-	(6,117,445)
Changes of assumptions	(685,185)	-	(685,185)
Benefit payments, including refunds of employee contributions	(29,059,878)	(29,059,878)	-
Contributions-employer	-	25,429,543	(25,429,543)
Contributions-employee	-	9,831,426	(9,831,426)
Net investment income	-	1,121,428	(1,121,428)
Administrative Expense	-	(683,011)	683,011
Other	-	(33,734)	33,734
Net Changes	48,769,011	6,605,774	42,163,237
Balance at December 31, 2015	\$ 897,635,803	\$ 766,550,193	\$ 131,085,610

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

	1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
City's Net Pension Liability	\$260,361,299	\$131,085,610	\$ 24,898,247

OTHER POST-EMPLOYMENT BENEFITS . . . The City offers its retired employees under age 65 health insurance coverage under the same plan as the active employees and Medicare supplementary insurance for retirees 65 and older. The number of retired participants receiving health insurance coverage for 2016 was 431 of which 227 were on the same plan as the active employees and 204 on Medicare supplementary insurance. Premiums are paid by the retired employees and claims are processed by the City's agent and paid through the Health Claims Fund. Expenditures for postretirement healthcare benefits are recognized as retirees report claims. Claims paid for retired employees for 2016 were \$3,503,250.

On March 1, 2008, the City established a Section 115 Trust (the Trust) to comply with the requirements of GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions* (OPEB), for the purpose of funding and providing certain benefits to its eligible retirees and dependents. The single-employer, joint contributor hybrid defined-benefit plan is created by City ordinance and administered by the Risk Pool Trustees who meet four times a year. The Risk Pool Trustees consist of three or more City employees who are appointed by the City pursuant to the Plano Welfare Benefit Plan. Professional investment management is used and a custodial bank retains the assets of the Trust. The Trust issued a separate publicly available financial report that includes financial statements and required supplementary information at the Trust's fiscal year-end which is December 31. Those financial reports may be obtained by request to the City's Human Resources Department, 1520 Avenue K, Suite 130, Plano, Texas 75074.

The City delivers to the Section 115 Trustee the amounts of money that are contributed to the Trust Fund by the City and by participants. Contributions by the City are established as part of the City budget process and are based on amounts determined in the actuarial study prepared biennially. For fiscal year ending September 30, 2016, the City contributed \$5,530,675 to the Trust, which represents approximately 100% of the annual required contribution of the employer (ARC). In addition, retirees contributed \$1,102,654 to the Trust.

As of the October 1, 2015 biennial actuarial valuation, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$84,392,988, and the Trust's actuarial value of assets as of such date was \$60,007,584, giving the Trust a "funded ratio" of 71.1%. As of September 30, 2016 the City had a net OPEB asset in the amount of \$21,168,895 in the Trust.

For more detailed information concerning the City's Employee Benefit Plans, see Appendix A, "Excerpts from the City's Comprehensive Annual Financial Report" - Note IV.5.

FINANCIAL INFORMATION

TABLE 3 - CONDENSED STATEMENT OF OPERATIONS ⁽¹⁾

	Fiscal Year Ended September 30,				
<u>Revenues</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Drainage Fee Revenues	\$ 7,307,311	\$ 7,141,216	\$ 7,397,607	\$ 6,289,462	\$ 5,208,675
Investment Income and Other	84,907	115,736	77,470	38,193	125,456
Gross Revenues	\$ 7,392,218	\$ 7,256,952	\$ 7,475,077	\$ 6,327,655	\$ 5,334,131
<u>Expenses</u>					
Personnel Services	\$ 2,579,177	\$ 2,261,642	\$ 1,920,656	\$ 1,657,050	\$ 1,598,746
Contractual Services	600,442	712,049	655,598	583,314	692,087
Supplies	315,614	279,489	265,114	261,247	285,796
Miscellaneous	28,516	30,636	10,923	23,020	38,576
Total Operating Expenses	\$ 3,523,749	\$ 3,283,816	\$ 2,852,291	\$ 2,524,631	\$ 2,615,205
Net Income	\$ 3,868,469	\$ 3,973,136	\$ 4,622,786	\$ 3,803,024	\$ 2,718,926

(1) Information derived from City records. Table 3 is intended to show System operating results each year. Expenses exclude debt service payments and depreciation (a non-cash expense).

TABLE 4 - COVERAGE AND FUND BALANCES ⁽¹⁾

Average Annual Principal and Interest Requirements, 2017 - 2036	\$ 1,267,374
Coverage of Average Annual Requirements by Net Income Fiscal Year Ending September 30, 2016	3.05 Times
Coverage of Average Annual Requirements by Gross Revenues Fiscal Year Ending September 30, 2016	5.83 Times
Bond Fund, 1-1-17	\$ 1,167,975
Reserve Fund, 1-1-17	\$ 1,193,981

(1) Includes the Bonds and excludes the Refunded Bonds.

TABLE 5 - VALUE OF THE SYSTEM ⁽¹⁾

	Fiscal Year Ended September 30,				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land	\$ 103,548	\$ 94,548	\$ 91,496	\$ 90,846	\$ 94,796
Buildings	52,921	52,921	52,921	52,921	52,921
Drainage Improvements	37,775,933	37,705,157	37,694,242	36,033,378	35,460,811
Equipment	15,048	-	-	264,643	264,643
Furniture and Fixtures	4,421	4,421	4,421	8,124	8,124
Construction in Progress	4,419,585	3,650,455	515,255	836,885	360,979
Value of Plant	\$ 42,371,456	\$ 41,507,502	\$ 38,358,335	\$ 37,286,797	\$ 36,242,274
Less Accumulated Depreciation	8,457,855	7,697,462	6,973,770	6,498,943	5,768,543
Total Non Current Assets Value	<u>\$ 33,913,601</u>	<u>\$ 33,810,040</u>	<u>\$ 31,384,565</u>	<u>\$ 30,787,854</u>	<u>\$ 30,473,731</u>

(1) Information derived from City records.

TABLE 6 - CITY'S EQUITY IN SYSTEM ⁽¹⁾

Resources	Fiscal Year Ended September 30,				
	2016	2015	2014	2013	2012
Net System Value	\$ 33,913,601	\$ 33,810,040	\$ 31,384,565	\$ 30,787,854	\$ 30,473,731
Construction Fund	2,384,260	3,976,070	3,784,960	5,011,361	6,049,363
Debt Service and Reserve Fund	3,691,079	3,661,942	3,644,456	3,867,225	3,853,805
Cash Investments and Receivables	3,514,743	3,192,069	5,406,713	3,978,959	3,548,626
Total Resources	\$ 43,503,683	\$ 44,640,121	\$ 44,220,694	\$ 43,645,399	\$ 43,925,525
<u>Obligations</u>					
Revenue Bonds Payable	\$ 12,458,005	\$ 14,279,894	\$ 16,116,042	\$ 18,016,010	\$ 19,457,857
Current Liabilities	175,607	735,068	167,902	131,263	185,360
Restricted Liabilities	2,047,735	2,449,009	2,171,576	2,438,542	2,333,539
Liability - Compensated Absences	281,678	276,969	200,388	138,674	143,725
Total Obligations	\$ 14,963,025	\$ 17,740,940	\$ 18,655,908	\$ 20,724,489	\$ 22,120,481
City's Equity in System	\$ 28,540,658	\$ 26,899,181	\$ 25,564,786	\$ 22,920,910	\$ 21,805,044
Percentage City's Equity in System	65.61%	60.26%	57.81%	52.52%	49.64%

(1) Information derived from City records.

FINANCIAL POLICIES

Basis of Accounting . . . The accounting policies of the City conform to generally accepted accounting principles for governmental entities as promulgated by the Governmental Accounting Standards Board. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and pension trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the combined balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary and trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the combined statement of net assets. Proprietary fund-type operating statements present increases (revenues) and decreases (expenses) in total net assets.

The modified accrual basis of accounting is used by all governmental funds types, pension trust funds and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recorded when the related fund liability is incurred. However, principal of and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Major revenue sources which have been treated as susceptible to accrual under the modified accrual basis of accounting include property taxes, charges for services, intergovernmental revenues, and investment of available funds.

The accrual basis of accounting is utilized by proprietary and trust funds. Under this method, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred.

The City reports unearned revenue on its combined balance sheet. Unearned revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualified expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

Deferred outflows of resources are used to report consumptions of net position by the City that are applicable to a future reporting period. Deferred inflows of resources are used to report acquisitions of net assets by the City that are applicable to future reporting periods. The deferred inflow is reclassified to revenue on the government-wide financial statements.

Fund Balances . . . It is the City's practice regarding the General Fund and Enterprise Funds that working capital resources should be maintained at 30 days of the Funds' operating expenses. The City maintains its various debt service funds in accordance with the covenants of applicable bond ordinances.

Budgetary Procedures . . . The City Charter establishes the fiscal year as the twelve-month period beginning each October 1. Each year by the middle of June, the City Manager, after review, submits a budget of estimated revenues and expenditures to the City Council. Subsequently, the City Council will hold work sessions to discuss and amend the budget to coincide with their direction of the City. Various public hearings may be held to comply with state and local statutes. The City Council will adopt a budget prior to October 1 through passage of an ordinance. If the Council fails to adopt a budget then the prior year budget remains in effect.

During the fiscal year, budgetary control is maintained by the monthly review by department heads of departmental appropriation balances. Actual operations are compared to the amounts set forth in the budget. Departmental appropriations that have not been expended lapse at the end of the fiscal year. Therefore, funds that were budgeted and not used by the departments during the fiscal year are not available for their use unless appropriated in the ensuing fiscal year's budget.

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under Texas law, including specifically the Public Funds Investment Act Texas Government Code, Chapter 2256, as amended, (the "PFIA"), the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal and interest of which are unconditionally guaranteed, insured, or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) certificates of deposit and share certificates (i) issued by a depository institution that has its main office or a branch office in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation, its successor, 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 an investing entity through a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by the PFIA or a depository institution that has its main office or a branch office in the State of Texas 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 investing entity appoints the depository institution selected under subdivision (a), a custodian as described by Texas Government Code, Section 2257.041(d), 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); (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) above which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) bankers' acceptances with a stated maturity of 270 days or less from the date of its issuance, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the preceding clauses, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, and (13) public funds investment pools meeting the requirements of the PFIA and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or AAA-m or at an equivalent rating. Texas law also permits the City to invest bond proceeds in a guaranteed investment contract, subject to limitations as set forth in the PFIA.

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

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAA-m or an equivalent by at least one nationally recognized rating service. The City is specifically prohibited from investing in (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal, (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest, (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years, and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

INVESTMENT POLICIES . . . Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, 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 the City Council.

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

TABLE 7 - CURRENT INVESTMENTS ⁽¹⁾

As of December 1, 2016, the City's investable funds were invested in the following categories:

Description	Percent	Book Value
Local Government Investment Pools	4.48%	\$ 21,188,329
Agency Debt	22.66%	107,126,818
NOW Account	17.07%	80,677,966
Certificates of Deposit	8.54%	40,349,476
Municipal Debt	47.25%	223,400,927
	<u>100.00%</u>	<u>\$472,743,516</u>

No funds of the City are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index or commodity.

(1) Source: City Officials.

SELECTED PROVISIONS OF THE ORDINANCE

The following are selected provisions of the Ordinance. These excerpts should be qualified by reference to the exact terms of the Ordinance. Unless otherwise indicated, any references to sections listed below are to sections contained in the Ordinance and section headings contained in the following excerpts are to sections contained in the Ordinance.

Definitions.

Unless otherwise expressly provided or unless the context clearly requires otherwise, in this Ordinance, the following terms shall have the meanings specified below:

“Act” means Subchapter C of Chapter 552 of the Texas Local Government Code, as amended (formerly codified as Subchapter C of Chapter 402 of the Texas Local Government Code).

“Accountant” means a certified public accountant.

“Additional Bonds” means revenue bonds or other evidences of indebtedness issued or entered into, as the case may be, in the future in accordance with the terms and conditions provided in Section 9.02 hereof and, by their terms, are equally and ratably secured by a parity lien on and pledge of the Revenues of the System.

“Average Annual Debt Service” means an amount which, at the time of computation, is derived by dividing the total amount of Debt Service to be paid over a period of years as the same is scheduled to become due and payable by the number of years taken into account in determining the total Debt Service. Capitalized interest payments provided from bond proceeds shall be excluded in making the aforementioned computation.

“Bonds” means the “City of Plano, Texas, Municipal Drainage Utility System Revenue Refunding and Improvement Bonds, Series 2017” authorized by this Ordinance.

“City” means the incorporated municipality known as the City of Plano located in Collin and Denton Counties, Texas.

“Closing Date” means the date of the initial delivery of and payment for the Bonds.

“Code” means the Internal Revenue Code of 1986, as amended, including applicable regulations, published rulings and court decisions.

“Credit Facility” means (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a Rating Agency having an outstanding rating on such obligations would rate such obligations which are fully insured by a standard policy issued by the issuer in its two highest generic rating categories for such obligations; and (ii) a letter or line of credit issued by any financial institution, provided that a Rating Agency having an outstanding rating on the Bonds would rate the Bonds in its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the Bonds and the interest thereon.

“Debt Service” means as of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the City as of such date or in such period for the payment of the principal of and interest (to the extent not capitalized) on such obligations; assuming, in the case of obligations required to be redeemed or prepaid as to principal prior to maturity, the principal amounts thereof will be redeemed prior to maturity in accordance with such applicable mandatory redemption.

“Designated Payment/Transfer Office” means the designated office of the initial Paying Agent/Registrar specified in the Pricing Certificate.

“DTC” shall mean The Depository Trust Company of New York, New York, or any successor securities depository.

“DTC Participant” shall mean brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

“EMMA” means the Electronic Municipal Market Access System.

“Escrow Agent” means the bank or other financial institution designated and appointed in the Pricing Certificate to serve as escrow agent for the Refunded Bonds.

“Escrow Agreement” shall have the meaning assigned to it in Section 12.02 hereof.

“Escrow Fund” shall have the meaning assigned to it in Section 12.02 hereof.

“Fiscal Year” means the twelve-month financial accounting period used by the City in connection with the operation of the System which may be any twelve consecutive month period established by the City.

“Initial Bond” means the initial bond authorized by Section 3.04(d) of this Ordinance.

“Interest Payment Date” means the date or dates for the payment of interest on the Bonds as set forth in the Pricing Certificate.

“Letter of Representations” means the Blanket Letter of Representation between the City and DTC.

“Maturity Date” means the dates on which the principal of the Bonds is due and payable as set forth in the Pricing Certificate.

“MSRB” means the Municipal Securities Rulemaking Board.

“Net Revenues” means, with respect to any period, Revenues of the System remaining after deducting the System’s Operating and Maintenance Expenses for such period.

“Operating and Maintenance Expenses” means all current expenses of operating and maintaining the System, including all salaries, labor, materials, and administrative costs, allocable under generally accepted accounting principles, to the System. Depreciation charges and other costs and disbursements which may be capitalized under generally accepted accounting principles shall not be considered Operating and Maintenance Expenses.

“Outstanding” means when used in this Ordinance with respect to Bonds, Previously Issued Bonds or any Additional Bonds, as the case may be, as of the date of determination, all Bonds, Previously Issued Bonds and any Additional Bonds theretofore sold, issued and delivered by the City, except:

- (1) Bonds, Previously Issued Bonds or any Additional Bonds cancelled or delivered to the transfer agent or registrar for cancellation in connection with the exchange or transfer of such obligations;
- (2) Bonds, Previously Issued Bonds or any Additional Bonds paid or deemed to be paid in accordance with the provisions of Section 9.08 hereof; and Bonds,
- (3) Previously Issued Bonds or any Additional Bonds that have been mutilated, destroyed, lost, or stolen and replacement bonds have been registered and delivered in lieu thereof.

“Owner” means the person who is the registered owner of a Bond, a Previously Issued Bond, or an Additional Bond, as applicable.

“Paying Agent/Registrar” means the bank appointed to serve as the paying agent/registrar for the Bonds as set forth in the Pricing Certificate, or any successor thereto.

“Previously Issued Bonds” means the bonds of the following issues of the City to be outstanding upon the issuance of the Bonds herein authorized:

- (1) Municipal Drainage Utility System Revenue Bonds, Series 2007, dated May 1, 2007;
- (2) Municipal Drainage Utility System Revenue Bonds, Series 2008, dated January 15, 2008 (to be partially refunded by the Bonds);
- (3) Municipal Drainage Utility System Revenue Refunding and Improvement Bonds, Series 2009, dated January 15, 2009 (to be partially refunded by the Bonds);
- (4) Municipal Drainage Utility System Revenue Refunding and Improvement Bonds, Series 2010, dated January 15, 2010; and
- (5) Municipal Drainage Utility System Revenue Refunding Bonds, Series 2015, dated May 1, 2015.

“Rating Agency” means any nationally recognized securities rating agency which has assigned a rating to the Bonds.

“Record Date” shall mean that record date set forth in the Pricing Certificate.

“Register” means the register specified in Section 3.06(a) of this Ordinance.

“Required Reserve” means the total amount required to be maintained in the Reserve Fund under the provisions of Section 7.04 hereof.

“Reserve Fund Obligations” means cash or investment securities of any of the type or types permitted under Section 7.06 of this Ordinance.

“Revenues” means all annual income, receipts and revenues of every nature derived or received from the operation and ownership (excluding restricted gifts, grants in aid of construction and any amounts received from drainage charges specifically provided by ordinance for contribution to the funding of future drainage system construction) of the System, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established for the payment and security of the Bonds and the Previously Issued Bonds and other obligations payable solely from and secured only by a lien on and pledge of the Revenues of the System.

“Rule” means SEC Rule 15c2-12, as amended from time to time or officially interpreted by the SEC.

“SEC” means the United States Securities and Exchange Commission.

“Special Record Date” means the Special Record Date prescribed by Section 3.03(b).

“System” means all land, easements and interest in land, together with all structures, equipment and facilities used in draining benefited property (within the meaning of the Act), including, but not limited to, bridges, catch basins, channels, conduits, creeks, culverts, detention ponds, ditches, draws, flumes, pipes, pumps, sloughs, treatment works, and appurtenances to those items, whether natural or artificial, or using force or gravity, that are used to draw off surface water from land, carry the water away, collect, store, or treat the water, or divert the water into natural or artificial watercourses.

SECURITY FOR THE BONDS

Pledge of Security.

The City hereby covenants and agrees that all of the Revenues of the System are hereby irrevocably pledged to the payment of the Bonds, the Previously Issued Bonds and Additional Bonds, if issued, and the interest thereon, including the establishment and maintenance of the special funds created and established by this Ordinance, all as hereinafter provided. It is hereby ordained that the Previously Issued Bonds, the Bonds and the interest thereon shall constitute a first lien on such Revenues of the System and be valid and binding in accordance with the terms hereof without any filing or recording thereof (except in the official records of the City), physical delivery of such Revenues or further act by the City, and the lien created on the Revenues for the payment and security of the Bonds shall be prior in right and claim as to any other indebtedness, liability or obligation of the City or the System.

Rates and Charges.

For the benefit of the Owners of the Previously Issued Bonds and the Bonds and in accordance with the provisions of the Act and other applicable laws of the State of Texas, the City hereby expressly stipulates and agrees, while any of the Previously Issued Bonds and the Bonds are Outstanding, to establish, maintain and impose drainage charges for services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Revenues in each Fiscal Year sufficient to pay:

- (1) Operating and Maintenance Expenses of the System;
- (2) Debt Service on the Previously Issued Bonds, the Bonds and any Additional Bonds then Outstanding;
- (3) any required deposits to the Reserve Fund and any contingency fund created for the payment and security of the Previously Issued Bonds, the Bonds and any Additional Bonds; and
- (4) all other indebtedness payable from and/or secured in whole or in part by a lien on and pledge of the Revenues of the System.

Bonds as Special Obligations.

The Bonds and the Previously Issued Bonds are special obligations of the City payable from the pledged Revenues and the Owners thereof shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

FUNDS AND ACCOUNTS

Creation of Funds.

All revenues derived from the operation of the System shall be kept separate from other funds of the City. To that end, creation of the following special Funds is hereby confirmed:

- (1) “City of Plano, Texas Municipal Drainage Utility System Fund,” hereinafter called the “System Fund.”
- (2) “City of Plano, Texas Municipal Drainage Utility System Reserve Fund,” hereinafter called the “Reserve Fund.”
- (3) “City of Plano, Texas Municipal Drainage Utility System Bond Fund,” hereinafter called the “Bond Fund.”

System Fund.

The City hereby covenants and agrees that the Revenues of the System (excluding earnings and income derived from investments held in the Bond Fund and the Reserve Fund) shall be deposited as collected to the credit of the System Fund. All revenues deposited in the System Fund shall be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

First: To the payment of the amounts required to be deposited in the Bond Fund for the payment of Debt Service on the Bonds and the Previously Issued Bonds as the same becomes due and payable.

Second: To the payment of the amounts required to be deposited in the Reserve Fund to maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to the issuance of Additional Bonds.

Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be transferred to the City's general fund or used for any lawful purpose including payment of Operating and Maintenance Expenses.

Bond Fund.

Moneys on deposit in the Bond Fund shall be used solely for the purpose of paying the principal of and interest on the Bonds and the Previously Issued Bonds as the same becomes due and payable. The City hereby covenants that there shall be deposited into the Bond Fund from the System Fund an amount sufficient to pay the principal of and interest on the Bonds and the Previously Issued Bonds when due, either at maturity or prior redemption. Deposits to the Bond Fund shall be made in substantially equal monthly installments on or before the 10th day of each month, beginning the month next following the delivery of the Bonds to the Purchasers.

The required monthly deposits to the Bond Fund for the payment of principal of and interest on the Bonds shall continue to be made as hereinabove provided until (i) the total amount on deposit in the Bond Fund and the Reserve Fund is equal to the amount required to fully pay and discharge all Outstanding Bonds or (ii) the Bonds are no longer Outstanding.

Accrued interest and premium, if any, received from the sale of the Bonds, as well as earnings derived from the investment of moneys in the Bond Fund, shall be deposited to the credit of the Bond Fund and taken into consideration in determining the amount of the monthly deposits hereinabove required to be deposited in the Bond Fund from the Revenues of the System.

Reserve Fund.

The City covenants and agrees that it will continuously maintain in the Reserve Fund an amount of Reserve Fund Obligations equal to not less than the Average Annual Debt Service on the Bonds and the Previously Issued Bonds (the "Required Reserve"), and that upon issuance of Additional Bonds, the Required Reserve shall be increased, if required, to an amount equal to the lesser of (i) the Average Annual Debt Service (calculated on a Fiscal Year basis) for all bonds Outstanding, as determined on the date of issuance of each series of Additional Bonds, and annually following each principal payment date or redemption date for the Bonds, the Previously Issued Bonds and any Additional Bonds Outstanding, as the case may be, or (ii) the maximum amount in a reasonably required reserve fund that can be invested without restriction as to yield pursuant to Subsection (d) of Section 148 of the Code and regulations promulgated thereunder. For so long as the funds on deposit in the Reserve Fund are equal to the Required Reserve, no additional deposit need be made therein, but should the Reserve Fund at any time contain less than the Required Reserve, then, subject and subordinate to making the required deposits to the credit of the Bond Fund, the City shall restore such deficiency by depositing additional Reserve Fund Obligations into the Reserve Fund in monthly installments of not less than 1/60th of the Required Reserve on or before the 10th day of each month following such deficiency, termination, or expiration. The money on deposit in the Reserve Fund shall be used solely for the purpose of paying the principal of and interest on the Bonds, the Previously Issued Bonds and any Additional Bonds at any time there are not sufficient moneys on deposit in the Bond Fund.

The City may, at its option, withdraw all surplus in the Reserve Fund over the Required Reserve and deposit the same in the System Fund; provided, however, that to the extent such surplus monies constitute bond proceeds, including interest and income derived therefrom, such amounts shall not be deposited to the System Fund and shall only be used for the purposes for which bond proceeds may be used.

For the purpose of determining compliance with the requirements of subsection (g) of this Section, Reserve Fund Obligations shall be valued each year as of the last day of the City's fiscal year at their cost or market value, whichever is lower, except that any direct obligations of the United States (State and Local Government Series) held for the benefit of the Reserve Fund in book-entry form shall be continuously valued at their par value or face principal amount.

To the extent permitted by, and in accordance with applicable law and upon approval of the Attorney General of the State of Texas, the City may replace or substitute a Credit Facility for cash or investment securities, of any of the type or types permitted

by Section 7.06 hereof, on deposit in the Reserve Fund or in substitution or replacement of any existing Credit Facility. Upon such replacement or substitution, cash or investment securities of any of the types permitted by Section 7.06 hereof, on deposit in the Reserve Fund which, taken together with the face amount of any existing Credit Facilities, are in excess of the Required Reserve may be withdrawn by the City, at its option, and transferred to the System Fund; provided that the face amount of any Credit Facility may be reduced at the option of the City in lieu of such transfer. However, to the extent such surplus monies constitute bond proceeds, including interest and income derived therefrom, such amounts shall not be deposited to the System Fund and shall only be used for the purposes for which bond proceeds may be used. Any interest due on any reimbursement obligation under the Credit Facility shall not exceed the highest lawful rate of interest which may be paid by the City.

If the City is required to make a withdrawal from the Reserve Fund, the City shall promptly notify the issuer of such Credit Facility of the necessity for a withdrawal from the Reserve Fund, and shall make such withdrawal first from available moneys or investment securities then on deposit in the Reserve Fund, and next from a drawing under any Credit Facility to the extent of such deficiency.

In the event of a deficiency in the Reserve Fund, or in the event that on the date of termination or expiration of any Credit Facility there is not on deposit in the Reserve Fund sufficient Reserve Fund Obligations, all in an aggregate amount at least equal to the Required Reserve, then the City shall, after making required deposits to the Bond Fund in accordance with the terms of this Ordinance, satisfy the Required Reserve by depositing additional Reserve Fund Obligations into the Reserve Fund in monthly installments of not less than 1/60th of the Required Reserve on or before the 10th day of each month following such deficiency, termination or expiration.

In the event of the redemption or defeasance of any of the Outstanding Bonds, any Reserve Fund Obligations on deposit in the Reserve Fund in excess of the Required Reserve may be withdrawn and transferred, at the option of the City, to the System Fund, as a result of (i) the redemption of the Outstanding Bonds, or (ii) funds for the payment of the Outstanding Bonds having been deposited irrevocably with the paying agent or place of payment therefor in the manner described in this Ordinance, the result of such deposit being that such Outstanding Bonds no longer are deemed to be Outstanding under the terms of this Ordinance. However, to the extent such surplus monies constitute bond proceeds, including interest and income derived therefrom, such amounts shall not be deposited to the System Fund and shall only be used for the purposes for which bond proceeds may be used.

In the event there is a draw upon the Credit Facility, the City shall reimburse the issuer of such Credit Facility for such draw in accordance with the terms of any agreement pursuant to which the Credit Facility is issued from Net Revenues; however, such reimbursement from Net Revenues shall be subject to the provisions of subparagraph (e) hereof, and shall be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on the Bonds.

Notwithstanding the foregoing, at such time as the Previously Issued Bonds, dated on or before January 15, 2010, are no longer Outstanding, the City may discontinue the Reserve Fund for the Bonds and for any Additional Bonds issued after the issuance of the Bonds; provided however, the City may provide for the establishment of a Reserve Fund with respect to Additional Bonds to the extent specified in the ordinance authorizing such Additional Bonds. At such time as the Previously Issued Bonds, dated on or before January 15, 2010, are no longer Outstanding, the City may withdraw and transfer monies relating to the Bonds in the Reserve Fund to the System Fund; provided that, to the extent such monies constitute bond proceeds, including interest and income derived therefrom, such amounts shall be deposited to the Bond Fund.

Deficiencies: Excess Revenues.

If on any occasion there shall not be sufficient Revenues of the System to make the required deposits into the Bond Fund and the Reserve Fund, then such deficiency shall be cured as soon as possible from the next available Revenues of the System, or from any other sources available for such purpose.

Subject to making the required deposits to the Bond Fund and the Reserve Fund in accordance with the provisions of this Ordinance, the ordinances authorizing the issuance of the Previously Issued Bonds, or any ordinance authorizing the issuance of Additional Bonds, the excess Revenues may be transferred to the City's general operating fund or used by the City for any lawful purpose.

Security of Funds.

Money in any Fund may, at the option of the City, be invested in funds and obligations authorized and identified in the Public Funds Investment Act, as amended (to the extent such funds and obligations are also authorized under the City's investment policy), or other applicable law. All deposits and investments shall be made in such a manner that the money required to be expended from any Fund will be available at the proper time or times. All interest and income derived from deposits and investments in the Bond Fund immediately shall be credited to, and any losses debited to, the Bond Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations provided in Section 7.04 hereof, be credited to and deposited in the System Fund. All investments shall be sold promptly when necessary to prevent any default in connection with the Bonds or any Previously Issued Bonds.

To the extent amounts deposited to the credit of any Funds referenced herein are not invested, such uninvested amounts shall be secured in the manner and to the fullest extent required by laws of the State of Texas for the security of public funds.

Payment of Bonds.

While any of the Bonds are Outstanding, the Director of Finance (or other designated financial officer of the City) shall cause to be transferred to the Paying Agent/Registrar, from funds on deposit in the Bond Fund, and, if necessary, in the Reserve Fund, amounts sufficient to fully pay and discharge promptly as each installment of interest and principal of the Bonds accrues or matures or comes due by reason of redemption prior to maturity; such transfer of funds to be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for the Bonds at the close of the last business day next preceding the date of payment for the Bonds.

Issuance of Additional Parity Bonds.

Subject to the provisions hereinafter appearing as to conditions precedent which must be satisfied, the City reserves the right to issue, from time to time as needed, Additional Bonds for any authorized purpose, including the issuance of refunding bonds. Such Additional Bonds may be issued in such form and manner as now or hereafter authorized by the laws of the State of Texas for the issuance of evidences or instruments, and should new methods or financing techniques be developed that differ from those now available and in normal use, the City reserves the right to employ the same in its financing arrangements provided that the following conditions precedent for the authorization and issuance of the same are satisfied, to wit:

The officer of the City then having the primary responsibility for the financial affairs of the City shall have executed a certificate stating (a) that, to the best of his or her knowledge and belief, the City is not then in default as to any covenant, obligation or agreement contained in any ordinance or other proceeding relating to any obligations of the City payable from and secured by a lien on and pledge of the Revenues of the System that would materially affect the security or payment of such obligations and (b) either (i) payments into all special Funds maintained for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of the Revenues of the System have been made and that the amounts on deposit in such special Funds equal or exceed the amounts then required to be on deposit therein or (ii) the application of the proceeds of sale of such obligations then being issued will cure any such deficiency;

The Additional Bonds shall be scheduled to mature or be payable as to principal on May 15 or November 15 (or both) in each year the same are to be outstanding or during the term thereof;

The Reserve Fund shall contain the Required Reserve amount on the date of issuance of the proposed Additional Bonds after giving effect to the issuance thereof; and

The City has secured a certificate or opinion of an Accountant to the effect that, according to the books and records of the City, the Net Revenues for the last completed Fiscal Year, or for 12 consecutive months out of the 18 months immediately preceding the month in which the ordinance authorizing the issuance of the then proposed Additional Bonds is passed, are at least equal to 1.25 times the Average Annual Debt Service for all Outstanding Bonds, Outstanding Previously Issued Bonds and any Outstanding Additional Bonds after giving effect to the issuance of the Additional Bonds then being issued. In making a determination of the Net Revenues, the Accountant may take into consideration a change in the charges for services afforded by the System that became effective at least 60 days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the above Net Revenues test, make a pro forma determination of the Net Revenues of the System for the period of time covered by his certification or opinion based on such change in charges being in effect for the entire period covered by the certificate or opinion of the Accountant.

If the Reserve Fund is no longer being maintained pursuant to the provisions of Section 7.04(i) of this Ordinance, the requirement of subparagraph (iii) shall not apply.

Issuance of Obligations of Inferior Lien and Pledge.

The City hereby reserves the right to issue obligations payable from and secured by a lien on and pledge of the Revenues of the System, junior and subordinate in rank and dignity to the lien and pledge securing the payment of the Bonds and the Previously Issued Bonds, as may be authorized by the laws of the State of Texas.

Refunding Bonds.

The City reserves the right to issue refunding bonds to refund all or any part of the Bonds and the Previously Issued Bonds (pursuant to any law then available) upon such terms and conditions as the City Council of the City may deem to be in the best interest of the City and its inhabitants, and if less than all of such Bonds and the Previously Issued Bonds then Outstanding are refunded, the conditions precedent prescribed (for the issuance of Additional Bonds) set forth in Section 9.02 hereof shall be satisfied and the certificate or opinion of the Accountant required in Section 9.02 shall give effect to the Debt Service of the proposed refunding bonds (and shall not give effect to the Debt Service on the bonds being refunded following their cancellation

or provisions being made for their payment). Notwithstanding the foregoing, to the extent that the City issues refunding bonds to refund the Bonds or Additional Bonds issued after the issuance of the Bonds and such refunding will result in a net debt service savings to the City, the certificate or opinion of an Accountant set forth in Section 9.04(iv) above shall not be required to be provided as a condition precedent to the issuance of such Additional Bonds.

Maintenance and Operation - Insurance.

In regard to the operations and properties of the System, the City agrees to carry and maintain liability and property damage insurance of the kind and in the amounts customarily carried by municipal corporations in Texas on such kind of properties; provided, however, the City, in lieu of and/or in combination with carrying such insurance, may self-insure against all perils and risks by establishing self-insurance reserves. Annually each year, not later than the end of each Fiscal Year, the City shall prepare or cause to be prepared by a person competent and knowledgeable in such matters a written evaluation of the adequacy of such self-insurance and/or insurance coverage and of any recommended changes in regard to the City's insurance/self-insurance policies, practices and procedures.

Records - Accounts - Accounting Reports.

The City hereby covenants, reaffirms and agrees that so long as any of the Bonds, or any interest thereon, remain outstanding and unpaid, it will keep and maintain a proper and complete system of records and accounts pertaining to the operation of the System separate and apart from all other records and accounts in which complete and correct entries shall be made of all transactions relating to said System, and that the Owner or Owners of any of such Bonds or any duly authorized agent or agents of such Owners shall have the right at all reasonable times to inspect all such records, accounts and data relating thereto, and to inspect the System and all properties comprising same. The City further agrees that within 60 days following the close of each Fiscal Year it will cause an audit of such books and accounts to be initiated by an independent firm of Accountants, showing the receipts and disbursements for account of the System for the Fiscal Year.

Each such audit, in addition to whatever other matters may be thought proper by the firm of Accountants, shall particularly include the following:

- (a) A detailed statement of the income and expenditures of the System for such Fiscal Year.
- (b) A balance sheet as of the end of such Fiscal Year.
- (c) The Accountants' comments regarding the manner in which the City has carried out the requirements of this Ordinance and his recommendations for any changes or improvements in the operation, records and accounts of the System.
- (d) A list of the insurance policies in force at the end of the Fiscal Year on the System properties, setting out as to each policy the amount thereof, the risk covered, the name of the insurer, and the policy's expiration date.

Expenses incurred in making the audits above referred to are to be regarded as maintenance and operating expenses and paid as such. Copies of the aforesaid annual audit shall be furnished to the original purchasers of the Bonds and any subsequent Owner upon written request. At the close of the first six-month period of each Fiscal Year, the City Secretary of the City is hereby directed to furnish a copy of an operating and income statement in reasonable detail covering such period to any bondholder upon written request therefor, received not more than 30 days after the close of said six-month period. Any Owner shall have the right to discuss with the Accountant making the annual audit the contents thereof and to ask for such additional information as he may reasonably require.

Sale or Lease of Properties.

The City, to the extent and in the manner authorized by law, may sell or exchange for consideration representing the fair value thereof, as determined by the City Council of the City, any property of the System which is obsolete, damaged or worn out or otherwise unsuitable. The proceeds of any sale of properties of the System shall be deposited in the System Fund.

Special Covenants.

The City further covenants and agrees by and through this Ordinance as follows:

- (a) It has the lawful power to pledge the Revenues of the System to the payment of the Bonds to the extent provided herein and has lawfully exercised said power under the Constitution and laws of the State of Texas, including the Act, and that the Bonds issued hereunder, together with the Previously Issued Bonds and any Additional Bonds, shall be ratably secured in such manner that no one bond shall have preference over any other bond of said issues.

- (b) The Revenues of the System have not been in any manner pledged or encumbered to the payment of any debt or obligation of the City or the System, save and except for the Bonds and the Previously Issued Bonds; provided that the City has reserved the right pursuant to Section 9.03 hereof to issue subordinate lien obligations.
- (c) To exercise and pursue with due diligence available remedies provided by law for the collection of delinquent drainage charges, including the power under Section 552.050 of the Act to discontinue all utility services, particularly water and sewer services provided by the City to a user of benefited property who is delinquent in the payment of drainage charges.

Ordinance a Contract - Amendments.

This Ordinance shall constitute a contract with the Owners from time to time, be binding on the City, and shall not be amended or repealed by the City while any Bond remains Outstanding except as permitted in this Section and Section 11.05. The City, may, without the consent of or notice to any Owners, from time to time and at any time, amend this Ordinance in any manner not detrimental to the interests of the Owners, to cure any ambiguity, inconsistency, or formal defect or omission herein and to provide additional security for the payment of the Bonds. In addition, the City may, with the written consent from the owners holding a majority in aggregate principal amount of the Bonds then Outstanding (excluding Bonds acquired by or held for the account of the City) affected thereby, amend, add to, or rescind any of the provisions of this Ordinance; provided that, without the written consent of all Owners of Bonds then Outstanding, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the Bonds, reduce the principal amount thereof, the redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held for consent to any such amendment, addition, or rescission.

DEFAULT AND REMEDIES

Remedies in Event of Default.

In addition to all rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City:

- (a) defaults in payments to be made to the Bond Fund or the Reserve Fund as required by this Ordinance; or
- (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in this Ordinance, the Owners of any of the Bonds shall be entitled to a writ of mandamus issued by a court of property jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in this Ordinance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

TAX MATTERS

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

Interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust ("FASIT"). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

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

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

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

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

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

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

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

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

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

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CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

ANNUAL REPORTS . . . The City will provide to the MSRB updated financial information and operating data annually. The information to be updated includes quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under the Tables numbered 1 through 7 and in Appendix A. The City will update and provide this information in the numbered tables within six months after the end of each fiscal year ending in or after 2017 and audited financial statements within 12 months after the end of each fiscal year ending in or after 2017. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix A or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

The City's current fiscal year end is September 30. Accordingly, updated unaudited information included in the above-referenced tables must be provided by March 31 in each year, and audited financial statements must be provided by September 30 of each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the City otherwise would be required to provide financial information and operating data.

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

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

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

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

The City's continuing disclosure agreements for the Bonds may be amended by the City 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, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell the Bonds in the primary offering of such Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinance that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized Bond Counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of such Bonds. The City may also amend or repeal the provisions of the continuing disclosure agreements if the SEC amends or repeals the applicable provision 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 the Bonds in the primary offering of such Bonds. If the City amends its agreements, it must 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 information and data provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years the City believes it has complied in all material respects with its previous continuing disclosure undertakings entered into pursuant to the Rule.

OTHER INFORMATION

RATINGS

The Bonds and the outstanding municipal drainage utility revenue debt of the City are rated "Aa1" by Moody's and "AAA" by S&P. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such 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, by either of them, may have an adverse effect on the market price of the Bonds.

LITIGATION

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

At the time of the initial delivery of the Bonds, the City Attorney will notify the Underwriter if there has been any lawsuit or claim challenging the issuance of the Bonds or that affects the payment, delivery or security of the Bonds for which the City Attorney has been notified.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations.

General Considerations. For political subdivisions in Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before the Bonds are eligible investments for sinking funds and other public funds. The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL OPINIONS

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bond and to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "PLAN OF FINANCING" (except under the subcaption "Sources and Uses of Proceeds"), "THE BONDS" (exclusive of the subcaptions "Book-Entry-Only System" and "Bondholders' Remedies"), "SELECTED PROVISIONS OF THE ORDINANCE", "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" (exclusive of the subcaption "Compliance with Prior Undertakings") and the subcaptions "Legal Opinions" (except for the last sentence of the first paragraph thereof), "Registration and Qualification of Bonds for Sale," and "Legal Investments and Eligibility to Secure Public Funds in Texas" under the caption "OTHER INFORMATION" in the Official Statement, and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by McCall, Parkhurst & Horton L.L.P Dallas, Texas, Counsel to the Underwriter, whose legal fees are contingent upon the sale and delivery of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds 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 from 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

FirstSouthwest, a Division of Hilltop Securities Inc. ("FirstSouthwest") is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. FirstSouthwest, in its capacity as 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 Bonds, or the possible impact of any present, pending, or future actions taken by any legislative or judicial bodies.

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

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

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

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

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City, at an underwriting discount of \$55,816.55. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds and such public offering prices may be changed, from time to time, by the Underwriter.

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

MISCELLANEOUS

The Pricing Certificate approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the offering of the Bonds by the Underwriter.

DENISE TACKE
PRICING OFFICER
City of Plano, Texas

SCHEDULE OF REFUNDED BONDS

Schedule I

Municipal Drainage Utility System Revenue Bonds, Series 2008

<u>Original Dated Date</u>	<u>Original Maturity</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
1/15/2008	5/15/2018	4.000%	\$ 100,000	\$ 100,000
	5/15/2019	4.000%	105,000	105,000
	5/15/2020	4.000%	110,000	110,000
	5/15/2021	4.000%	115,000	115,000
	5/15/2022	4.000%	120,000	120,000
	5/15/2023	4.125%	125,000	125,000
	5/15/2024	4.200%	130,000	130,000
	5/15/2025	4.250%	135,000	135,000
	5/15/2026	4.350%	140,000	140,000
	5/16/2027 ⁽¹⁾	4.500%	150,000	150,000
	5/15/2028 ⁽¹⁾	4.500%	155,000	155,000
			<u>\$ 1,385,000</u>	<u>\$ 1,385,000</u>

The 2018 – 2028 maturities will be redeemed prior to original maturity on November 15, 2017 at par plus accrued interest.

(1) Represents a Term Bond with a final maturity of May 15, 2028.

Municipal Drainage Utility System Revenue Refunding and Improvement Bonds, Series 2009

<u>Original Dated Date</u>	<u>Original Maturity</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
1/15/2009	5/15/2020 ⁽¹⁾	4.250%	\$ 85,000	\$ 40,000
	5/15/2021 ⁽¹⁾	4.250%	90,000	45,000
	5/15/2022 ⁽¹⁾	4.250%	90,000	45,000
	5/15/2023 ⁽²⁾	4.750%	95,000	45,000
	5/15/2024 ⁽²⁾	4.750%	100,000	45,000
	5/15/2025 ⁽²⁾	4.750%	105,000	50,000
	5/15/2026 ⁽³⁾	5.000%	110,000	50,000
	5/15/2027 ⁽³⁾	5.000%	115,000	55,000
	5/15/2028 ⁽³⁾	5.000%	125,000	60,000
	5/15/2029 ⁽³⁾	5.000%	130,000	60,000
			<u>\$ 1,045,000</u>	<u>\$ 495,000</u>

Portions of the 2020 – 2029 maturities will be redeemed prior to original maturity on May 15, 2019 at par plus accrued interest.

(1) Represents a Term Bond with a final maturity of May 15, 2022.

(2) Represents a Term Bond with a final maturity of May 15, 2025.

(3) Represents a Term Bond with a final maturity of May 15, 2029.

APPENDIX A

EXCERPTS FROM THE

CITY OF PLANO, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2016

The information contained in this Appendix consists of excerpts from the City of Plano, Texas Comprehensive Annual Financial Report for the Year Ended September 30, 2016, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

APPENDIX B

FORM OF BOND COUNSEL'S OPINION