

**PRELIMINARY OFFICIAL STATEMENT**  
**Dated July 31, 2019**

**NEW ISSUE – BOOK-ENTRY-ONLY**

**RATINGS: Fitch: “Applied For”**  
**Moody’s: “Applied For”**  
**S&P: “Applied For”**  
**(See “RATINGS” herein.)**

*In the opinion of Co-Bond Counsel (named below), assuming continuing compliance by the City (defined below) after the date of initial delivery of the 2019 Obligations (defined below) with certain covenants contained in each of the Ordinances (defined below) and subject to the matters set forth under “TAX MATTERS” herein, interest on the Obligations for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Obligations, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. (See “TAX MATTERS” herein.)*

**CITY OF SAN ANTONIO, TEXAS**

\$ \_\_\_\_\_  
**General Improvement  
and Refunding Bonds,  
Series 2019**

\$ \_\_\_\_\_  
**Combination Tax and Revenue  
Certificates of Obligation,  
Series 2019**

\$ \_\_\_\_\_  
**Tax Notes,  
Series 2019**

**Date: August 1, 2019**  
**(interest accrues from the hereinafter-defined Delivery Date)**

**Due: August 1, as shown herein**

The City of San Antonio, Texas (the “City”) is issuing its \$ \_\_\_\_\_ General Improvement and Refunding Bonds, Series 2019 (the “2019 Bonds”), its \$ \_\_\_\_\_ Combination Tax and Revenue Certificates of Obligation, Series 2019 (the “2019 Certificates”) and its \$ \_\_\_\_\_ Tax Notes, Series 2019 (the “2019 Notes” and, collectively with the 2019 Bonds and the 2019 Certificates, the “2019 Obligations”), pursuant to the Constitution and general laws of the State of Texas (the “State”) as further described herein; with respect to the 2019 Bonds only, an election held within the City on May 6, 2017; the Home Rule Charter of the City (the “City Charter”); and separate ordinances (together, the “Ordinances”) authorizing the issuance of the 2019 Obligations adopted by the City Council of the City (the “City Council”) on June 20, 2019, for the respective purposes identified herein. (See “PURPOSES AND PLAN OF FINANCING – Purpose of the 2019 Obligations” and “THE 2019 OBLIGATIONS – Authority for Issuance” herein.) As permitted by applicable State law, the City has, in each of the Ordinances, authorized certain City officials and staff to execute a separate “Approval Certificate” relating to each particular series of 2019 Obligations evidencing final sales terms relative thereto.

Interest on the 2019 Obligations will accrue from the date of their initial delivery (the “Delivery Date”) to the initial purchasers thereof named below (the “Underwriters”), will be payable on February 1 and August 1 of each year, commencing February 1, 2020, until stated maturity or prior redemption (if the particular series of 2019 Obligations is subject to prior redemption), and will be calculated on the basis of a 360-day year composed of twelve 30-day months. Each series of 2019 Obligations will be issued as fully registered obligations in book-entry-only form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository (the “Securities Depository”) for each series of 2019 Obligations. Book-entry interests in the 2019 Obligations will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the 2019 Obligations (the “Beneficial Owners”) will not receive physical delivery of certificates representing their interest in the 2019 Obligations. So long as the Securities Depository is the registered owner of the 2019 Obligations, the principal of and interest on the 2019 Obligations will be payable by \_\_\_\_\_, \_\_\_\_\_, as the initial Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners. (See “THE 2019 OBLIGATIONS – Book-Entry-Only System” herein.)

Each series of 2019 Obligations is payable from ad valorem taxes levied annually against all taxable property located within the City, within the limitations prescribed by law, including the State Constitutional tax limit of \$2.50 per \$100 of assessed valuation. In addition, the 2019 Certificates are additionally secured by a limited pledge of certain City park system revenues. (See “THE 2019 OBLIGATIONS – Security” herein.)

The 2019 Bonds and the 2019 Certificates are subject to redemption at the times, prices, and in the amounts specified herein; the 2019 Notes are not subject to redemption prior to their stated maturity. (See “THE 2019 OBLIGATIONS – Redemption Provisions” herein.)

The 2019 Bonds, 2019 Certificates, and 2019 Notes are being concurrently offered by the City under a common Official Statement and are separate and distinct securities offerings being issued and sold independently except for this Official Statement. While the 2019 Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently including, without limitation, the type of obligation being offered, its terms for payment, the rights of the City to redeem the 2019 Obligations of each series, the federal, state, or local tax consequences of the purchase, ownership, or disposition of the 2019 Obligations, and other features.

**SEE PAGES ii AND iii HEREIN FOR MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, AND CUSIP NUMBERS**

*The 2019 Obligations are offered for delivery, when, as, and if issued and received by the initial purchasers thereof identified below (the “Underwriters”), and subject to the approving opinion of the Attorney General of the State of Texas and the legal opinions of Norton Rose Fulbright US LLP and Kassahn & Ortiz, P.C., both of San Antonio, Texas, Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their Counsel, \_\_\_\_\_, \_\_\_\_\_, Texas, and for the City by the City Attorney. (See “LEGAL MATTERS” herein.) It is expected that the 2019 Obligations will be available for initial delivery through the services of DTC on or about August 29, 2019.*

**TBD**

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, AND CUSIP NUMBERS**  
(Due August 1)

\$ \_\_\_\_\_  
**CITY OF SAN ANTONIO, TEXAS**  
**GENERAL IMPROVEMENT AND REFUNDING BONDS, SERIES 2019**  
(CUSIP No.<sup>1</sup> Prefix: 79623P)

<u>Stated</u> <u>Maturity</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>No.</u> <u>Suffix:</u>	<u>Stated</u> <u>Maturity</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>No.</u> <u>Suffix:</u>
2020					2031				
2021					2032				
2022					2033				
2023					2034				
2024					2035				
2025					2036				
2026					2037				
2027					2038				
2028					2039				
2029					2040				
2030									

\$ \_\_\_\_\_  
**CITY OF SAN ANTONIO, TEXAS**  
**COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2019**  
(CUSIP No.<sup>1</sup> Prefix: 79623P)

<u>Stated</u> <u>Maturity</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>No.</u> <u>Suffix:</u>	<u>Stated</u> <u>Maturity</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>No.</u> <u>Suffix:</u>
2020					2030				
2021					2031				
2022					2032				
2023					2033				
2024					2034				
2025					2035				
2026					2036				
2027					2037				
2028					2038				
2029					2039				

<sup>1</sup> CUSIP numbers are included solely for the convenience of the owners of the 2019 Obligations. 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 Underwriters, the City or the Co-Financial Advisors shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

\$ \_\_\_\_\_  
**CITY OF SAN ANTONIO, TEXAS**  
**TAX NOTES, SERIES 2019**  
(CUSIP No.<sup>1</sup> Prefix: 79623P)

<u>Stated Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP No. Suffix:</u>
2020				
2021				
2022				

**Redemption.** The 2019 Bonds and the 2019 Certificates are subject to redemption prior to stated maturity at the times and prices specified herein. The 2019 Notes are not subject to redemption prior to stated maturity. (See “THE 2019 OBLIGATIONS – Redemption Provisions” herein.)

<sup>1</sup> CUSIP numbers are included solely for the convenience of the owners of the 2019 Obligations. 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 Underwriters, the City or the Co-Financial Advisors shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

**CITY OF SAN ANTONIO, TEXAS  
ADMINISTRATION**

**CITY COUNCIL:**

<b>Name</b>	<b>Years on City Council</b>	<b>Term Expires</b>	<b>Occupation</b>
Ron Nirenberg, Mayor	6 Years, 2 Months	May 31, 2021	Broadcast General Manager
Roberto C. Treviño, District 1	4 Years, 8 Months	May 31, 2021	Architect
Jada L. Andrews-Sullivan, District 2	2 Months	May 31, 2021	Disabled Army Veteran
Rebecca J. Viagran, District 3	6 Years, 2 Months	May 31, 2021	Business Owner
Adriana Rocha Garcia, District 4	2 Months	May 31, 2021	Assistant Professor
Shirley Gonzales, District 5	6 Years, 2 Months	May 31, 2021	Business Owner
Melissa Cabello Havrda, District 6	2 Months	May 31, 2021	Attorney at Law
Ana Sandoval, District 7	2 Years, 2 Months	May 31, 2021	Entrepreneur
Manny Peláez, District 8	2 Years, 2 Months	May 31, 2021	Attorney at Law
John Courage, District 9	2 Years, 2 Months	May 31, 2021	Teacher
Clayton Perry, District 10	2 Years, 2 Months	May 31, 2021	Retired

**CITY OFFICIALS:**

<b>Name</b>	<b>Position</b>	<b>Years with City of San Antonio</b>	<b>Years in Current Position</b>
Erik J. Walsh <sup>1</sup>	City Manager	25 Years, 2 Months	5 Months
Maria Villagomez	Deputy City Manager	21 Years, 10 Months	5 Months
Lori Houston	Assistant City Manager	17 Years, 2 Months	4 Years, 1 Month
Carlos Contreras	Assistant City Manager	10 Years, 6 Months	6 Years, 9 Months
Dr. Colleen Bridger <sup>2</sup>	Assistant City Manager	2 Years, 5 Months	5 Months
Roderick Sanchez	Assistant City Manager	26 Years, 7 Months	2 Years, 6 Months
Andrew Segovia	City Attorney	2 Years, 11 Months	2 Years, 11 Months
Leticia M. Vacek	City Clerk	15 Years, 2 Months	15 Years, 2 Months
Ben Gorzell, Jr.	Chief Financial Officer	28 Years, 9 Months	9 Years
Troy Elliott	Deputy Chief Financial Officer	22 Years, 12 Months	3 Years, 1 Month
Justina Tate	Director of Management and Budget	9 Years, 6 Months	2 Years, 6 Months

<sup>1</sup> Mr. Walsh was appointed City Manager on January 31, 2019, effective March 1, 2019. Prior to his appointment, Mr. Walsh served as Deputy City Manager from 2011-2019 and has been employed by the City for over 25 years.

<sup>2</sup> Dr. Bridger was appointed Interim Assistant City Manager effective March 1, 2019. Prior to her appointment, Dr. Bridger served as Director of the Health Department.

**CONSULTANTS AND ADVISORS:**

**Co-Bond Counsel**

Norton Rose Fulbright US LLP, San Antonio, Texas  
and Kassahn & Ortiz, P.C., San Antonio, Texas

**Certified Public Accountant\***

Grant Thornton LLP, Houston, Texas

**Co-Financial Advisors**

FTN Financial Municipal Advisors, San Antonio, Texas  
and Hilltop Securities Inc., San Antonio, Texas

\* Grant Thornton LLP, the City's independent auditor, has not been engaged to perform, and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Grant Thornton LLP also has not performed any procedures relating to this Official Statement.

## USE OF INFORMATION IN THE OFFICIAL STATEMENT

*For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended ("Rule 15c2-12"), and in effect on the date of this Preliminary Official Statement, this document constitutes an "official statement" of the City with respect to the 2019 Obligations that has been "deemed final" by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.*

This Official Statement and the information contained herein are subject to completion and amendment. The 2019 Obligations may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

No dealer, broker, salesman, or other person has been authorized by the City to give any information or to make any representation with respect to the 2019 Obligations, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. The information set forth herein has been compiled from sources which are believed by the City to be reliable but is not guaranteed as to accuracy or completeness by the Co-Financial Advisors or the Underwriters and is not to be construed as a promise or guarantee of the Co-Financial Advisors or the Underwriters. The information and expressions of opinion 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 information or opinions set forth hereinafter the date of this Official Statement.

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

THE AGREEMENTS OF THE CITY AND OTHERS RELATED TO THE 2019 OBLIGATIONS ARE CONTAINED SOLELY IN THE CONTRACTS DESCRIBED HEREIN. NEITHER THIS OFFICIAL STATEMENT NOR ANY OTHER STATEMENT MADE IN CONNECTION WITH THE OFFER OR SALE OF THE 2019 OBLIGATIONS IS TO BE CONSTRUED AS CONSTITUTING AN AGREEMENT WITH THE PURCHASERS OF THE 2019 OBLIGATIONS. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE SCHEDULE AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

THE 2019 OBLIGATIONS 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 2019 OBLIGATIONS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THE 2019 OBLIGATIONS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES AND EXCHANGE ACT OF 1934, 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 THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD LOOKING STATEMENTS.

All information contained in this Official Statement, including the schedule and appendices attached hereto, is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty, or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

None of the City, the Underwriters, or the Co-Financial Advisors makes any representation or warranty with respect to the information contained in this Official Statement regarding DTC (defined herein) or its Book-Entry-Only System, as such information has been provided by DTC.

## TABLE OF CONTENTS

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, AND CUSIP NUMBERS .....	ii
CITY OF SAN ANTONIO, TEXAS ADMINISTRATION .....	iv
USE OF INFORMATION IN THE OFFICIAL STATEMENT .....	v
INTRODUCTION .....	1
PURPOSES AND PLAN OF FINANCING .....	1
Purposes of the 2019 Obligations .....	1
Refunded Obligations .....	2
Sources and Uses of the 2019 Obligations .....	3
THE 2019 OBLIGATIONS .....	4
Description of the 2019 Obligations .....	4
Authority for Issuance .....	4
Security .....	5
Redemption Provisions .....	5
Paying Agent/Registrar .....	6
Transfer, Exchange, and Registration .....	7
Mutilated, Destroyed, Lost, or Stolen Obligations .....	7
Limitation on Transfer .....	7
Defaults and Remedies .....	7
Record Date for Interest Payment .....	9
Amendments .....	9
Defeasance .....	9
Payment Record .....	10
Book-Entry-Only System .....	10
Use of Certain Terms in Other Sections of this Official Statement .....	12
DEBT STATEMENT: ASSESSED VALUATION, OUTSTANDING DEBT PAYABLE FROM AD VALOREM TAXES, AND DEBT RATIOS .....	13
Appropriation Obligations .....	18
AD VALOREM TAXATION .....	22
Authority to Levy Ad Valorem Taxes; Tax Rate Limitations .....	22
Texas Property Tax Code and County-Wide Appraisal District .....	22
Property Subject to Taxation by the City .....	22
DEBT AND TAX RATE LIMITATIONS .....	29
REVENUE SOURCES AND EXPENDITURES .....	36
Sources of Revenues .....	36
General Fund Update .....	37
Financial Management Policies Update .....	37
Internal Service Fund – Self Insurance .....	37
Sales Taxation .....	37
Special Entities .....	38
Collections and Equivalent Rates .....	39
THE CITY .....	42
Governmental Structure .....	42
City Charter .....	42
Services .....	42
Economic Overview .....	43
Employee Pension Plan and Benefits .....	45
Healthcare and Retirement Benefits Task Force .....	45
Employees .....	45
Financial Accounting and Financial Policies .....	46
Fiscal Year 2018 Management Letter .....	47
Information Regarding GASB Statements for Pension/Retirement Program .....	48
Debt Management .....	48
Debt Authorization .....	49

Debt Limitations.....	50
Long-Term Debt Planning.....	50
New Money Issues .....	50
Debt Service Tax Rate.....	51
The Budget Process.....	51
Annexation Process .....	52
Public Improvement District .....	53
Investments .....	54
Legal Investments .....	54
Investment Policies .....	55
Additional Provisions.....	56
Current Investments .....	56
Certain Significant Issues Affecting the City .....	56
LITIGATION AND REGULATION .....	60
General Litigation and Claims.....	60
Collective Bargaining Negotiations .....	62
CITY PENSION AND OTHER POSTEMPLOYMENT RETIREMENT BENEFIT LIABILITIES.....	62
Other City Postemployment Retirement Benefits .....	64
CAFR Discussion.....	66
TAX MATTERS .....	66
Tax-Exemption.....	66
Tax Changes.....	67
Ancillary Tax Consequences.....	67
Tax Accounting Treatment of Discount Obligations.....	67
Tax Accounting Treatment of Premium Obligations .....	68
REGISTRATION AND QUALIFICATION OF 2019 OBLIGATIONS FOR SALE .....	68
LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS.....	69
LEGAL MATTERS .....	69
RATINGS.....	70
CONTINUING DISCLOSURE OF INFORMATION.....	70
Annual Reports.....	70
Notices of Certain Events.....	71
Availability of Information .....	71
Limitations and Amendments .....	72
Compliance with Prior Undertakings .....	72
EFFECT OF SEQUESTRATION .....	72
VERIFICATION OF MATHEMATICAL COMPUTATIONS.....	73
FORWARD-LOOKING STATEMENTS; INFORMATION FROM ONLINE SOURCES .....	73
UNDERWRITING .....	73
CO-FINANCIAL ADVISORS.....	74
CERTIFICATION OF THE OFFICIAL STATEMENT.....	74
AUTHORIZATION OF THE OFFICIAL STATEMENT .....	75

SCHEDULE I – Schedule of Refunded Obligations

APPENDIX A – City of San Antonio, Texas General Demographic and Economic Information

APPENDIX B – Form of Opinions of Co-Bond Counsel

APPENDIX C – Selected Portions of the City’s Comprehensive Annual Financial Report for the Fiscal Year Ended  
September 30, 2018

The cover page, subsequent pages hereof, schedule and appendices attached hereto, and any addenda, supplement, or amendment hereto, are part of this Official Statement.

**PRELIMINARY OFFICIAL STATEMENT**  
**Relating to**  
**CITY OF SAN ANTONIO, TEXAS**

\$ \_\_\_\_\_  
**General Improvement  
and Refunding Bonds,  
Series 2019**

\$ \_\_\_\_\_  
**Combination Tax and Revenue  
Certificates of Obligation,  
Series 2019**

\$ \_\_\_\_\_  
**Tax Notes,  
Series 2019**

**INTRODUCTION**

This Official Statement of the City of San Antonio, Texas (the “City”) is provided to furnish information in connection with the sale of the “City of San Antonio, Texas General Improvement and Refunding Bonds, Series 2019” in the principal amount of \$ \_\_\_\_\_ (the “2019 Bonds”); “City of San Antonio, Texas Combination Tax and Revenue Certificates of Obligation, Series 2019” in the principal amount of \$ \_\_\_\_\_ (the “2019 Certificates”); and “City of San Antonio, Texas Tax Notes, Series 2019” in the principal amount of \$ \_\_\_\_\_ (the “2019 Notes” and, collectively with the 2019 Bonds and the 2019 Certificates, the “2019 Obligations”).

This Official Statement contains descriptions of the 2019 Obligations, the Ordinances (defined herein), and certain other information about 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 upon request from the City Finance Department, 111 Soledad, 5th Floor, San Antonio, Texas 78205; or from the City’s Co-Financial Advisors, FTN Financial Municipal Advisors, 17721 Rogers Ranch Parkway, Suite 145, San Antonio, Texas 78258, and Hilltop Securities Inc., 70 Northeast Loop 410, Suite 710, San Antonio, Texas 78216, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the final Official Statement will be filed with the Municipal Securities Rulemaking Board (“MSRB”) through its Electronic Municipal Market Access (“EMMA”) system. (See “CONTINUING DISCLOSURE OF INFORMATION” herein for information regarding EMMA and for a description of the City’s undertaking to provide certain information on a continuing basis.)

The 2019 Bonds, 2019 Certificates, and 2019 Notes are being concurrently offered by the City under a common Official Statement and are separate and distinct securities offerings being issued and sold independently except for this Official Statement. While the 2019 Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently including, without limitation, the type of obligation being offered, its terms for payment, the rights of the City to redeem the 2019 Obligations of each series, the federal, state, or local tax consequences of the purchase, ownership, or disposition of the 2019 Obligations, and other features.

**PURPOSES AND PLAN OF FINANCING**

**Purposes of the 2019 Obligations**

***The 2019 Bonds***

The 2019 Bonds are being issued to provide funds for: (1) improvements to streets, bridges, and sidewalks; drainage and flood control; parks, recreation, and open spaces; library and cultural facilities; public safety facilities; and neighborhood initiatives; (2) refunding certain outstanding City obligations (as identified in Schedule I hereto, the “Refunded Obligations”); and (3) paying the costs of issuance of the 2019 Bonds. (See “THE CITY – Debt Authorization – General Obligation Bonds” herein.)

***The 2019 Certificates***

The 2019 Certificates are being issued to provide funds for: (1) acquiring, purchasing, improving, constructing, renovating, enlarging, extending, equipping, and/or repairing City administrative, service, community, parks and recreation, and other facilities and infrastructure, (2) designing, acquiring, constructing, renovating, improving, and equipping various City street improvements, including necessary capital maintenance and utilities relocation,



drainage, sidewalk improvements, and landscaping necessary or incidental thereto, (3) acquiring and installing upgrades in technology systems, including software and hardware, and communications systems and related equipment necessary to support City operations and services, (4) purchasing real property, materials, supplies, equipment, information technology, machinery, landscaping, land, and rights of way for authorized needs and purposes relating to the aforementioned capital improvements, (5) the payment of professional services related to the construction and project management of the aforementioned projects, and (6) paying the costs of issuance of the 2019 Certificates.

### ***The 2019 Notes***

The 2019 Notes are being issued to provide funds for: (1) street improvements (and ancillary improvements necessary or incidental thereto), (2) information technology improvements, and (3) paying the costs of issuance of the 2019 Notes.

### **Refunded Obligations**

The Refunded Obligations, and interest due thereon, are to be paid on their scheduled redemption date from funds to be deposited with \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_ (the "Escrow Agent") pursuant to an Escrow and Trust Agreement, dated as of June 20, 2019 (the "Escrow Agreement"), between the City and the Escrow Agent.

The 2019 Bond Ordinance (defined herein) provides that from a portion of the proceeds of the sale of the 2019 Bonds received from the Underwriters, along with a City contribution (if any), the City will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Obligations to their date of redemption. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund"), a portion of which will be held uninvested in cash and the remainder used to purchase a portfolio of securities authorized by Section 1207.062, Texas Government Code, as amended, which authorization includes direct noncallable obligations of the United States and noncallable obligations of an agency or instrumentality of the United States rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent and guaranteed by the full faith and credit of the United States of America (the "Federal Securities") maturing in time to make such payment. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations. Such maturing principal of and interest on the Federal Securities and uninvested cash will not be available to pay debt service on any of the 2019 Obligations.

Prior to, or simultaneously with, the issuance of the 2019 Bonds, the City will give irrevocable instructions to provide notice to the owners of the Refunded Obligations that certain Refunded Obligations will be redeemed prior to stated maturity on which date money will be made available to redeem the Refunded Obligations from money held under the Escrow Agreement.

\_\_\_\_\_, a nationally recognized accounting firm (the "Accountants"), will verify at the time of initial delivery of the 2019 Bonds to the Underwriters the mathematical accuracy of the schedules that demonstrate the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations. (See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein.)

By the deposit of a portion of the 2019 Bond proceeds and cash from the City (if any) with the Escrow Agent pursuant to the Escrow Agreement, and the investment of a portion thereof in the Federal Securities, the City will have effectuated the defeasance of the Refunded Obligations pursuant to the terms of the City ordinance authorizing their issuance. It is the opinion of Co-Bond Counsel that, as a result of such defeasance, and in reliance upon the report of the Accountants, the Refunded Obligations will no longer be payable from ad valorem taxes, but will be payable solely from the amounts on deposit in the Escrow Fund and held for such purpose by the Escrow Agent, and that the Refunded Obligations will be defeased and are not to be included in or considered to be indebtedness of the City for the purpose of a limitation of indebtedness or for any other purpose.

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 Obligations,

if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

The Refunded Obligations were issued as direct pay subsidy “Build America Bonds” under the Code (defined herein). The City has covenanted in the 2019 Bond Ordinance that upon delivery of the 2019 Bonds, the City will neither request nor accept direct pay subsidy payments from the United States Treasury in support of the payment of debt service on the Refunded Obligations prior to their date of early redemption (see “SCHEDULE I – Schedule of Refunded Obligations”), including the discontinuance of all filings with the Internal Revenue Service of Forms 8038-CP requesting such payments.

#### **Sources and Uses of the 2019 Obligations**

The following table summarizes the application of the proceeds resulting from the sale of the 2019 Bonds and the uses of funds.

<b><i>Sources of Funds</i></b>	
Principal Amount of the 2019 Bonds	\$
Original Issue [Net] Reoffering Premium	
Total Sources of Funds	<u>\$</u>
<b><i>Uses of Funds</i></b>	
Project Fund Deposit	\$
Escrow Fund Deposit	
Costs of Issuance and Additional Proceeds	
Underwriters’ Discount	
Total Uses of Funds	<u>\$</u>

The following table summarizes the application of the proceeds resulting from the sale of the 2019 Certificates and the uses of funds.

<b><i>Sources of Funds</i></b>	
Principal Amount of the 2019 Certificates	\$
Original Issue [Net] Reoffering Premium	
Total Sources of Funds	<u>\$</u>
<b><i>Uses of Funds</i></b>	
Project Fund Deposit	\$
Costs of Issuance and Additional Proceeds	
Underwriters’ Discount	
Total Uses of Funds	<u>\$</u>

The following table summarizes the application of the proceeds resulting from the sale of the 2019 Notes and the uses of funds.

<b><i>Sources of Funds</i></b>	
Principal Amount of the 2019 Notes	\$
Original Issue [Net] Reoffering Premium	
Total Sources of Funds	<u>\$</u>
<b><i>Uses of Funds</i></b>	
Project Fund Deposit	\$
Costs of Issuance and Additional Proceeds	
Underwriters’ Discount	
Total Uses of Funds	<u>\$</u>

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## **THE 2019 OBLIGATIONS**

### **Description of the 2019 Obligations**

Interest on the 2019 Obligations accrues from the Delivery Date, will be computed on the basis of a 360-day year of twelve 30-day months, and is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2020, until stated maturity of the 2019 Obligations or prior redemption of all series of 2019 Obligations other than the 2019 Notes (which are not subject to redemption prior to stated maturity). The principal of and interest on the 2019 Obligations are payable in the manner described herein under “THE 2019 OBLIGATIONS – Book-Entry-Only System”. If the Book-Entry-Only System is discontinued, the interest on the 2019 Obligations will be payable to the registered owner as shown on the applicable security register (the “Register”) maintained by \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, as the initial Paying Agent/Registrar, as of the Record Date (defined herein) by check, mailed first-class postage prepaid, to the address of such person on the Register, or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, the principal of the 2019 Obligations will be payable at stated maturity (or prior redemption, as and if applicable) upon presentation and surrender thereof at the designated payment office of the Paying Agent/Registrar.

If the date for the payment of the principal of or interest on the 2019 Obligations is a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized to close or the United States Post Office is not open for business, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due.

### **Authority for Issuance**

#### ***The 2019 Bonds***

The 2019 Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the “State” or “Texas”), particularly Chapters 1207, 1251, 1331, and 1371, Texas Government Code, as amended, and Chapters 331 and 374, Texas Local Government Code, as amended; an election held in the City on May 6, 2017 (the “Election”); the Home Rule Charter of the City (the “City Charter”); and an ordinance (the “2019 Bond Ordinance”) adopted by the City Council of the City (the “City Council”) on June 20, 2019 authorizing the issuance of the 2019 Bonds. (See “THE CITY – Debt Authorization” herein.)

#### ***The 2019 Certificates***

The 2019 Certificates are being issued by the City pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and Chapters 1371 and 1502, Texas Government Code, as amended; the City Charter; and an ordinance (the “2019 Certificate Ordinance”) adopted by the City Council on June 20, 2019.

#### ***The 2019 Notes***

The 2019 Notes are being issued by the City pursuant to the Constitution and general laws of the State, particularly Chapters 1371 and 1431, Texas Government Code, as amended; the City Charter; and an ordinance (the “2019 Note Ordinance” and, collectively with the 2019 Bond Ordinance and the 2019 Certificate Ordinance, the “Ordinances”) adopted by the City Council on June 20, 2019.

### **Delegation of Authority to Effectuate Sale**

As permitted by Chapter 1371, Texas Government Code, as amended (“Chapter 1371”), the City has, in each of the Ordinances, authorized certain City officials and staff to execute a separate “Approval Certificate” relating to each series of 2019 Obligations evidencing final sales terms relative thereto.

## **Security**

### ***Ad Valorem Tax Pledge***

In each of the Ordinances, the City covenants that it will levy and collect an annual ad valorem tax, within the limitations prescribed by law, against all taxable property located within the City sufficient to meet the debt service requirements on each series of the 2019 Obligations. The City had outstanding, as of July 31, 2019, \$1,845,100.00 (unaudited) in principal amount of tax-supported obligations prior to the issuance of the 2019 Obligations. After effectuating delivery of the 2019 Obligations and the defeasance of the Refunded Obligations on or about August 29, 2019, the City's outstanding principal amount of indebtedness payable from ad valorem taxes will be \$\_\_\_\_\_ (unaudited).\*

### ***Tax Rate Limitations***

The State Constitution and the City Charter provide that the ad valorem taxes levied by the City for general purposes and for the purpose of paying the principal of and interest on the City's indebtedness must not exceed \$2.50 for each \$100 of assessed valuation of taxable property. There is no constitutional or statutory limitation within the \$2.50 rate for interest and sinking fund purposes; however, the Texas Attorney General, who must approve the issuance of the 2019 Obligations, has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from \$1.50 of the foregoing \$2.50 maximum tax rate calculated at 90% collections. In addition, Section 1331.051, as amended, Texas Government Code, and the City Charter prohibit the total debt of the City from exceeding 10% of the total assessed valuation of property shown by the last assessment roll, and the City Charter excludes (1) any indebtedness secured in whole or in part by special assessments, (2) the debt of any improvement district, and (3) any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. The issuance of the 2019 Obligations does not result in the City's violation of these provisions. (See "DEBT AND TAX RATE LIMITATIONS" herein.)

### ***Limited Revenue Pledge Securing the 2019 Certificates***

Solely to comply with State law allowing the 2019 Certificates to be sold for cash (and not as an expected source of repayment), the 2019 Certificates are additionally secured by and payable from a lien on and pledge of not more than \$1,000 derived from the net revenues of the City's municipal parks system, such lien and pledge, however, being subordinate and inferior to any lien thereon and pledge thereof now or hereafter existing that secures other City obligations secured by such source of revenues. The City has issued, and there remains outstanding, other series of certificates of obligation secured by a limited amount of these revenues and will use these revenues prospectively in a similar manner in connection with the issuance of additional series of certificates of obligation.

### ***Perfection of Security Interest***

Chapter 1208, as amended, Texas Government Code, applies to the issuance of the 2019 Obligations and the pledge of the ad valorem taxes and, with respect to the 2019 Certificates, the separate pledge of \$1,000 in municipal park system revenues thereto, and such pledges are, therefore, valid, effective, and perfected. Should State law be amended at any time while the 2019 Obligations are outstanding and unpaid, the result of such amendment being that the pledge of the ad valorem taxes and revenues (with respect to the 2019 Certificates only) are to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, in order to preserve to the registered owners of the 2019 Obligations a security interest in such pledges, the City agrees to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge or pledges to occur.

## **Redemption Provisions**

### ***Optional Redemption***

The City reserves the right, at its sole option, to redeem the 2019 Bonds and the 2019 Certificates (together, the "Callable Obligations") stated to mature on or after August 1, 20\_\_\_\_, in whole or in part, in principal amounts of

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\* Preliminary, subject to change.

\$5,000 or any integral multiple thereof on August 1, 20\_\_\_\_, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. The 2019 Notes are not subject to redemption prior to stated maturity.

### ***Selection of Obligations for Redemption***

If it elects to exercise its redemption rights, the City will determine the maturity or maturities and the principal amount of the Callable Obligations within each series to be redeemed. If fewer than all of the Callable Obligations within a stated maturity of a particular series of Callable Obligations are to be redeemed, the particular Callable Obligations to be redeemed will be selected at random and by lot by the Paying Agent/Registrar.

### ***Notice of Redemption***

At least 30 days prior to the date fixed for any redemption of any Callable Obligation, or portions thereof, prior to stated maturity, the City must cause written notice of such redemption to be sent by United States mail, first-class, postage prepaid, to the registered owner of each of the Callable Obligations or a portion thereof to be redeemed at its address as it appeared on the Register on the day such notice of redemption is mailed. By the date fixed for any such redemption, due provision must be made with the Paying Agent/Registrar for the payment of the required redemption price for the Callable Obligations or portions thereof which are to be so redeemed. If such notice of redemption is given and if due provision for such payment is made, all as provided above, the Callable Obligations or portions thereof which are to be so redeemed thereby automatically will be treated as redeemed prior to their scheduled maturities, and they will not bear interest after the date fixed for redemption, and they will not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment.

### ***Denominations***

The Callable Obligations of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any integral multiple thereof). Any of the Callable Obligations to be partially redeemed may be surrendered in exchange for one or more new Callable Obligations in authorized denominations of the same stated maturity, series, and interest rate for the unredeemed portion of the principal.

### ***Notices and Redemption through The Depository Trust Company***

The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the 2019 Obligations, will send any notice of redemption of the Callable Obligations, notice of proposed amendment to the Ordinances, or other notices with respect to the 2019 Obligations only to DTC (defined herein). Any failure by DTC to advise any DTC Participant (defined herein), or of any DTC Participant or Indirect Participant (defined herein) to notify the Beneficial Owner (defined herein), will not affect the validity of the redemption of the Callable Obligations called for redemption or any other action relative to the Callable Obligations premised on any such notice. Redemption of portions of the Callable Obligations by the City will reduce the outstanding principal amount of such Callable Obligations held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, redemption of such Callable Obligations held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants may implement a redemption of such Callable Obligations from the Beneficial Owners. Any such selection of Callable Obligations to be redeemed will not be governed by the applicable Ordinance relating to such Callable Obligations and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants, or the persons for whom DTC Participants act as nominees, with respect to the payments on the Callable Obligations or the providing of notice to DTC Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Callable Obligations for redemption. (See "THE 2019 OBLIGATIONS – Book-Entry-Only System" herein.)

### ***Paying Agent/Registrar***

The initial Paying Agent/Registrar is \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_. In each of the Ordinances, the City covenants to provide a competent and legally qualified bank, trust company, financial institution, or other entity to act as and perform the services of Paying Agent/Registrar at all times until each respective series of the 2019

Obligations are duly paid. In each Ordinance, the City retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the City, must be a bank, trust company, financial institution, or other entity duly qualified and legally authorized to serve as a Paying Agent/Registrar for any series of 2019 Obligations. Upon a change in the Paying Agent/Registrar for a series of 2019 Obligations, the City will promptly cause written notice thereof to be sent to each registered owner of such series of 2019 Obligations by United States mail, first-class postage prepaid.

### **Transfer, Exchange, and Registration**

In the event a series of 2019 Obligations is not in the Book-Entry-Only System, such series of 2019 Obligations may be registered, transferred, assigned, and exchanged on the applicable Register only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration, transfer, and exchange will 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, transfer, and exchange. A 2019 Obligation may be assigned by the execution of an assignment form on the 2019 Obligation or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new 2019 Obligation will be delivered by the Paying Agent/Registrar in lieu of the 2019 Obligation being transferred or exchanged at the designated payment office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk, and expense. New 2019 Obligations issued in an exchange or transfer of 2019 Obligations will be delivered to the registered owner or assignee of the registered owner, to the extent possible, within three business days after the receipt of the 2019 Obligations to be canceled in the exchange or transfer 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 2019 Obligations registered and delivered in an exchange or transfer will be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount, series, and rate of interest as the 2019 Obligations surrendered for exchange or transfer. (See "THE 2019 OBLIGATIONS – Book-Entry-Only System" herein for a description of the system to be utilized in regard to ownership and transferability of the 2019 Obligations while in the Book-Entry-Only System.)

### **Mutilated, Destroyed, Lost, or Stolen Obligations**

The City has agreed to replace damaged, mutilated, destroyed, lost, or stolen 2019 Obligations upon surrender of the damaged or mutilated 2019 Obligations to the Paying Agent/Registrar or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the City and the Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The City may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

### **Limitation on Transfer**

Neither the City nor the Paying Agent/Registrar will be required to transfer or exchange any 2019 Obligations (1) during the period commencing at the close of business on the Record Date (as hereinafter defined) and ending at the opening of business on the next interest payment date and (2) with respect to the Callable Obligations selected for redemption in whole or in part, within 45 days of the date fixed for redemption; provided, however, that this limitation is not applicable to the transfer or exchange of the unredeemed balance of any Callable Obligations called for redemption in part.

### **Defaults and Remedies**

If the City defaults in the payment of principal, interest, or redemption price on the 2019 Obligations when due, or if it fails to make payments into any fund or funds created in the applicable Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the applicable Ordinance, the bondholders may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the 2019 Obligations if there is no other available remedy at law to compel performance of the 2019 Obligations or the applicable Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so it rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the 2019 Obligations in the event of default and,

consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinances do not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinances, 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 bondholders. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) (“Tooke”), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Chapter 1371, which pertains to the issuance of public securities by issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing the issuance of the 2019 Obligations. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the 2019 Obligations, the City has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas Legislature has effectively waived the City’s sovereign immunity from a suit for money damages outside of Chapter 1371, bondholders may not be able to bring such a suit against the City for breach of the 2019 Obligations or the Ordinances. Furthermore, Tooke, and subsequent jurisprudence, held that a municipality is not immune from suit for torts committed in the performance of its proprietary functions, as it is for torts committed in the performance of its governmental functions (the “Proprietary- Governmental Dichotomy”). Governmental functions are those that are enjoined on a municipality by law and are given by the State as a part of the State’s sovereignty, to be exercised by the municipality in the interest of the general public, while proprietary functions are those that a municipality may, in its discretion, perform in the interest of the inhabitants of the municipality.

In *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) (“Wasson”), the Texas Supreme Court (the “Court”) addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that “a city’s proprietary functions are not done pursuant to the ‘will of the people’ and protecting such municipalities ‘via the [S]tate’s immunity is not an efficient way to ensure efficient allocation of [S]tate resources.’” While the Court recognized that the distinction between governmental and proprietary functions is not clear, the Wasson opinion held that Proprietary-Governmental Dichotomy applies in contract-claims context. The Court reviewed Wasson for a second time and issued an opinion on October 5, 2018, clarifying that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance at the time of inception of the contractual relationship.

Notwithstanding the foregoing, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a judgment, is justiciable against a municipality.

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 bondholders 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 2019 Obligations. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without bankruptcy court approval, the prosecution of any other legal action by creditors or 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 bondholders’ rights would be subject to the approval of the bankruptcy court (which could require that the action be heard in bankruptcy court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a bankruptcy court in administering any proceeding brought before it. The opinion of Co-Bond Counsel will note that all opinions relative to the enforceability of the Ordinances and the 2019 Obligations are qualified with respect to the customary rights of debtors relative to their creditors and as to general principles of equity that permit the exercise of judicial discretion.

### **Record Date for Interest Payment**

The date for determining the person to whom the interest on a 2019 Obligation is payable on any interest payment date is the 15th day of the month next preceding such interest payment date (the "Record Date"), as specified in each Ordinance. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new Record Date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which must be 15 days after the Special Record Date) will be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each registered owner of a 2019 Obligation appearing on the applicable Register at the close of business on the day next preceding the date of mailing of such notice.

### **Amendments**

The City may, without the consent of or notice to any registered owner, from time to time and at any time, amend each Ordinance in any manner not detrimental to the interests of the applicable bondholders, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the City may, with the written consent of registered owners holding a majority in aggregate principal amount of each respective series of the 2019 Obligations then outstanding affected thereby, amend, add to, or rescind any of the provisions of the applicable Ordinance; provided, however, that, without the consent of all registered owners of each respective series of outstanding 2019 Obligations, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of and interest on the 2019 Obligations, reduce the principal amount thereof, or the rate of interest thereon, modify the redemption price (with respect to the Callable Obligations), or in any other way modify the terms of payment of the principal of or interest on the 2019 Obligations, (2) give any preference to any 2019 Obligation over any other 2019 Obligation of that series, or (3) reduce the aggregate principal amount of each respective series of 2019 Obligations required for consent to any such amendment, addition, or rescission.

### **Defeasance**

Each Ordinance provides for the defeasance of the applicable series of the 2019 Obligations when the payment of the principal of such 2019 Obligations, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption (with respect to the Callable Obligations), or otherwise), is provided for by irrevocably depositing with a paying agent (or other financial institution permitted by applicable State law), in trust (1) money sufficient to make such payment, and/or (2) Government Securities (defined below), of such maturities and interest payment dates and bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or (3) a combination of money and Government Securities together so certified sufficient to make such payment. The foregoing deposits shall be certified as to sufficiency by an independent accounting firm, the City's Co-Financial Advisors, the Paying Agent/Registrar, or such other qualified financial institution (as provided in each of the Ordinances). The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested money on deposit for such defeasance, and to withdraw for the benefit of the City money in excess of the amount required for such defeasance.

The term "Government Securities" means (1) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (2) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and on the date of their acquisition or purchase by the City are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (3) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date of their acquisition or purchase by the City are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (4) any additional securities and obligations hereafter authorized by State law as eligible for use to accomplish the discharge of obligations such as the 2019 Obligations. City officials are authorized to further restrict authorized defeasance securities in connection with and at the time of sale of the 2019 Obligations. There is no assurance that the ratings for United States Treasury securities acquired to defease any 2019 Obligations, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no



assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (1) through (3) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the 2019 Obligations (“Defeasance Proceeds”), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinances do not contractually limit such permissible defeasance securities and expressly recognize the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the 2019 Obligations, registered owners of 2019 Obligations are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under Texas law as permissible defeasance securities.

Upon such deposit as described above, such 2019 Obligations will no longer be regarded as being outstanding or unpaid and no longer entitled to the rights and benefits afforded under the applicable Ordinance; provided, however, that the City may reserve the option, to be exercised at the time of the defeasance of the Callable Obligations, to call for redemption, at an earlier date, those Callable Obligations which have been defeased to their maturity date, if the City (1) in the proceedings for the firm banking and financial arrangements, expressly reserves the right to call the Callable Obligations for redemption; (2) gives notice of the reservation of that right to the owners of the Callable Obligations immediately following the making of the firm banking and financial arrangements; and (3) directs that notice of the reservation be included in any redemption notices that it authorizes.

### **Payment Record**

The City has never defaulted in payments on its bonded indebtedness.

### **Book-Entry-Only System**

This section describes how ownership of the 2019 Obligations is to be transferred and how the principal of and interest on the 2019 Obligations are to be paid to and credited by The Depository Trust Company, New York, New York (“DTC”), while the 2019 Obligations are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City, the Co-Financial Advisors, and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the 2019 Obligations, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the 2019 Obligations), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States 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 2019 Obligations. The 2019 Obligations will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each maturity of each series of the 2019 Obligations in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for about 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing

corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a S&P Global Ratings rating of “AA+”. The DTC Rules applicable to its participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the 2019 Obligations under the DTC system must be made by or through Direct Participants, who will receive a credit for the 2019 Obligations on DTC’s records. The ownership interest of each actual purchaser of the 2019 Obligations (“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 interest in the 2019 Obligations are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2019 Obligations, except in the event that use of the book-entry system for the 2019 Obligations is discontinued.

To facilitate subsequent transfers, all 2019 Obligations deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2019 Obligations with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2019 Obligations; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2019 Obligations 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 2019 Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2019 Obligations, such as: redemptions (for Callable Obligations), tenders, defaults, and proposed amendments to the 2019 Obligation documents. For example, Beneficial Owners of 2019 Obligations may wish to ascertain that the nominee holding the 2019 Obligations 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 Paying Agent/Registrar and request that copies of notices are provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2019 Obligations unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the 2019 Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the 2019 Obligations will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detailed information from the City or the Paying Agent/Registrar on the payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name”, and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Paying Agent/Registrar; disbursement of such payments to

Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2019 Obligations at any time by giving reasonable notice to the City and the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, certificates for the 2019 Obligations are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates for the 2019 Obligations will be printed and delivered to DTC.

So long as Cede & Co. is the registered owner of the 2019 Obligations, the City will have no obligation or responsibility to the DTC Participants or Indirect Participants, or to the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

#### **Use of Certain Terms in Other Sections of this Official Statement**

In reading this Official Statement it should be understood that while the 2019 Obligations are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners, bondholders, or holders should be read to include the person for which the Direct Participant or Indirect Participant acquires an interest in the 2019 Obligations, but (1) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (2) except as described above, notices that are to be given to registered owners under any of the Ordinances will be given only to DTC.

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*The following Tables 1A – 6 contain information on assessed valuation, debt payable from ad valorem taxes, estimated debt payable from ad valorem taxes, tax adequacy, indicated interest and sinking fund, ad valorem tax debt principal repayment schedule, and debt obligations – capital leases payable.*

**DEBT STATEMENT:  
ASSESSED VALUATION, OUTSTANDING DEBT PAYABLE FROM AD VALOREM TAXES, AND  
DEBT RATIOS**

<b>Assessed Valuation <sup>1</sup></b>	<b>Table 1A</b>
Tax Year 2018 Actual Market Value of Taxable Property	\$132,647,905,976
Less:	
Residence Homestead Exemptions – Optional 65 or Older	\$ 5,741,004,450
Residence Homestead Exemptions – Disabled	98,402,179
Disabled Veterans' Exemptions	185,512,216
Disabled Veterans' 100% Exemptions	1,406,027,822
Historic Property Exemptions	383,983,598
Freeport Goods Exemptions	463,160,560
Tax Abatement/Phase-In Exemptions	845,680,268
Residence Homestead Appraised Value 10% Limitations	1,608,834,096
Agricultural Productivity Loss	630,445,824
Pollution Control Exemptions	73,567,357
Low Income Housing Exemptions	115,698,868
Absolute Value Exemptions	6,091,574,961
Pro-Rated Exemptions	37,142,004
Community Housing Development Organizations	306,909,431
Armed Services Surviving Spouse Exemptions	5,582,300
First Responder Surviving Spouse Exemptions	191,010
Personal Property Vehicle Exemptions	1,356,280
Total Exemptions	\$ 17,995,073,224
Tax Year 2018 Net Taxable Assessed Valuation (100% of Actual Market) <sup>2</sup>	<u>\$114,652,832,752</u>

<sup>1</sup> Based on Tax Year 2018 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 20, 2018.

<sup>2</sup> The City anticipates that the taxable assessed value of real property subject to the 65 years of age and older and disabled homeowners tax freeze totals approximately \$3,558,441,614, resulting in a fiscal year 2019 loss in ad valorem tax revenue of approximately \$19,865,712.

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**Debt Payable from Ad Valorem Taxes\*****Table 1B****The Outstanding Ad Valorem Tax Debt (at 7/31/2019)**

General Obligation Bonds	\$ 1,262,935,000
Combination Tax and Revenue Certificates of Obligation	503,115,000
Tax Notes	79,050,000
<b>Total</b>	<b>\$ 1,845,100,000</b>

**Less: The Refunded Obligations**

\$ \_\_\_\_\_

**The 2019 Bonds**

\$ \_\_\_\_\_

**The 2019 Certificates**

\_\_\_\_\_

**The 2019 Notes**

\_\_\_\_\_

**Total Gross Outstanding Ad Valorem Tax Debt**

\$ \_\_\_\_\_

Less: Self-Supporting Debt <sup>1</sup>

249,203,000

**Total Net Debt Payable from Ad Valorem Taxes**

\$ \_\_\_\_\_

Interest and Sinking Fund Balance (at 09/30/18)

\$ 34,493,083

Ratio of Gross Debt to Actual Market Value <sup>2</sup>

\_\_\_\_\_%

Ratio of Gross Debt to Net Taxable Assessed Value <sup>2</sup>

\_\_\_\_\_%

Ratio of Net Debt to Actual Market Value <sup>2</sup>

\_\_\_\_\_%

Ratio of Net Debt to Net Taxable Assessed Value <sup>2</sup>

\_\_\_\_\_%

Tax Year 2018 Actual Market Value of Taxable Property <sup>2</sup>

\$ 132,647,905,976

Tax Year 2018 Net Taxable Assessed Value (100% of Actual Market) <sup>2</sup>

\$ 114,652,832,752

Per Capita 2018 Net Taxable Assessed Valuation <sup>2,3</sup>

\$ \_\_\_\_\_

Per Capita Gross Debt <sup>3</sup>

\$ \_\_\_\_\_

Per Capita Net Debt <sup>3</sup>

\$ \_\_\_\_\_

\* Preliminary subject to change.

<sup>1</sup> To maintain this debt as self-supporting, payments will be made from Solid Waste Management Fees, Police Confiscated Property Funds, Brooks City-Base Tax Increment Reinvestment Zone Revenue, Golf Course Revenue, Midtown Tax Increment Reinvestment Zone Revenue, Parking System Revenue, Stormwater Revenue, Mission del Lago Tax Increment Reinvestment Zone Revenue, General Fund Revenue, Building Equipment Services Department Revenue, Houston Street Tax Increment Reinvestment Zone Revenue, Inner City Tax Increment Reinvestment Zone Revenue, Frost Tower Savings and Loan Revenue, Airport Revenue, and Development Services. Though expected to be self-supporting from these respective sources, the sole or primary source of payment for these obligations is the City's pledge of ad valorem tax collections, within the limitations prescribed by law.

<sup>2</sup> Based on Tax Year 2018 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 20, 2018.

<sup>3</sup> Based on the City's Information Technology Services Department estimated population of 1,507,192 in 2019.

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Outstanding Principal and Interest Requirements\*, <sup>1</sup>

Table 2

Year	Existing Debt Service <sup>2</sup>	Less Refunded Debt Service	\$ General Improvement and Refunding Bonds, Series 2019			\$ Certificates of Obligation, Series 2019			\$ Tax Notes, Series 2019			Total New Debt Service Requirement
			Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service	
2019	\$ 111,879,399	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 111,879,399
2020	216,798,642											
2021	200,245,086											
2022	185,960,985											
2023	177,311,589											
2024	169,389,642											
2025	151,847,924											
2026	144,852,491											
2027	132,780,520											
2028	134,440,866											
2029	118,073,916											
2030	117,772,804											
2031	117,449,411											
2032	107,285,831											
2033	98,669,394											
2034	90,027,022											
2035	72,646,842											
2036	54,908,055											
2037	44,139,759											
2038	38,378,270											
2039	15,987,747											
2040	15,976,577											
2041	2,433,878											
2042	2,432,580											
2043	2,434,764											
2044	2,435,364											
2045	2,434,380											
2046	2,436,746											
2047	-	-										
<b>Total</b>	<b>\$2,531,430,484</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

\* Preliminary, subject to change.

<sup>1</sup> As of July 31, 2019.

<sup>2</sup> Includes the Refunded Obligations. For purposes of illustration, debt service on the City's Variable Rate Combination Tax and Revenue Certificates of Obligation, Series 2016 is calculated at a fixed rate of 2.64% through final maturity (though this rate is fixed only through the initial term period that expires on January 31, 2020); also considers as an offset to debt service the refundable tax credit to be received from the United States Department of Treasury by the City as a result of its designation and election to treat the City's General Improvement Bonds, Taxable Series 2010B as "Build America Bonds," which offset takes into account, for purposes of illustration and planning, the effect of Sequestration (defined herein) at a per annum rate of 5.9%. (See "EFFECT OF SEQUESTRATION" herein.)

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**Tax Adequacy\*****Table 3**

2018 Net Taxable Assessed Valuation <sup>1</sup>	\$ 114,652,832,752
Maximum Annual Debt Service Requirements, Fiscal Year Ended 2020	\$ _____
Indicated Interest and Sinking Fund Tax Rate	_____
Indicated Interest and Sinking Fund Tax Levy at 98% Collections	\$ _____

\* Preliminary, subject to change.

<sup>1</sup> Based on Tax Year 2018 Net Taxable Assessed Valuation certified by the Bexar Appraisal District as of July 20, 2018.

**Interest and Sinking Fund Management Index****Table 4**

Interest and Sinking Fund Balance, Fiscal Year Ended 2018	\$ 34,493,083
2019 Actual Interest and Sinking Fund Rate	0.2115
2019 Interest and Sinking Fund Tax Levy at 98% Collections Produces <sup>1</sup>	220,716,437
Total Available for Debt Service	\$ 255,209,520
Less: Ad Valorem Debt Service Requirements, Fiscal Year Ended 2019 <sup>2</sup>	248,131,978
Estimated Surplus at Fiscal Year Ended 2019 <sup>3</sup>	\$ 7,077,542

<sup>1</sup> Includes deductions for loss in ad valorem tax revenue due to delinquencies, tax increment reinvestment zone contribution, the 65 years of age and older exemption, and the disabled homeowners tax freeze exemption.

<sup>2</sup> Excludes debt service anticipated to be paid by Build America Bonds direct subsidy, which takes into account the effects of Sequestration.

<sup>3</sup> Does not include revenues derived from self-supporting debt operations, delinquent tax collections, penalties and interest on delinquent tax collections, or investment earnings.

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**Ad Valorem Tax Debt Principal Repayment Schedule <sup>\*, 1</sup>**
**Table 5**

Fiscal Year	Currently Outstanding Obligations <sup>2</sup>	Less: Refunded Obligations	The 2019 Bonds	The 2019 Certificates	The 2019 Notes	Total Outstanding Principal	Obligations Remaining Outstanding End of Year	Cumulative Percent of Principal Retired
2019	\$ 70,755,000	\$	\$	\$	\$	\$	\$	
2020	139,720,000							
2021	129,820,000							
2022	121,270,000							
2023	118,110,000							
2024	115,475,000							
2025	103,160,000							
2026	100,980,000							
2027	93,425,000							
2028	99,550,000							
2029	87,435,000							
2030	90,945,000							
2031	94,545,000							
2032	88,525,000							
2033	83,500,000							
2034	78,225,000							
2035	63,745,000							
2036	48,205,000							
2037	39,315,000							
2038	35,305,000							
2039	14,515,000							
2040	15,065,000							
2041	2,105,000							
2042	2,160,000							
2043	2,220,000							
2044	2,280,000							
2045	2,340,000							
2046	2,405,000	-	-	-	-	-	-	-
	<u>\$1,845,100,000</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	

<sup>\*</sup> Preliminary, subject to change.

<sup>1</sup> As of July 31, 2019.

<sup>2</sup> Includes the Refunded Obligations.

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**Debt Obligations – Capital Leases Payable****Table 6**

The City has entered into various lease purchase agreements for the acquisition of various refuse collection trucks (diesel and compressed natural gas), brush collection trucks, brush grappler trucks, brush tractor/trailer combinations, wheel loader trucks, roll off trucks, refuse collection containers, emergency breaking apparatus, thermal imaging cameras, police helicopters, energy/water savings conservation improvements, laptops, an ambulance, direct capture filtration systems, platform truck, engine, bunker gear, and automated side loaders. Shown below is the gross value of the assets at August 29, 2019. Payments on each of the lease purchases will be made from budgeted annual appropriations approved by the City Council. The following is a schedule of the projected remaining future minimum lease payments under these capital leases together with the net minimum lease payments as of August 29, 2019.

Description	Lease Termination Date	Minimum Lease Payment	Amount Representing Interest	Total Minimum Lease Payments
Breathing Apparatus & Thermal Imaging Cameras	11/1/2020	1,111,780	12,455	1,124,235
Automated Refuse Collection Trucks	11/1/2020	722,940	8,099	731,039
Automated Refuse Collection Trucks	05/1/2021	1,817,109	23,516	1,840,625
Ambulance	05/01/2021	173,404	4,081	177,485
Automated Trucks, Brush Trucks, Wheel Loaders, Grapplers & Roll Off Trucks	08/1/2021	1,331,478	25,439	1,356,917
Police Helicopter	05/1/2023	1,572,488	52,519	1,625,007
Bunker Gear	05/01/2023	1,731,823	85,712	1,817,535
Automated Side Loaders	05/01/2023	2,178,962	107,842	2,286,804
Police Helicopter (2018)	05/01/2025	4,142,685	336,298	4,478,983
Direct Capture Filtration System, Truck, Engine	05/01/2025	3,600,026	291,883	3,891,909
Brush Tractors and Brush Trailers	05/01/2025	585,524	47,473	632,997
Energy/Water Savings Conservation Improvements (Aviation)	11/1/2026	1,531,281	210,588	1,741,869
Energy/Water Savings Conservation Improvements (Convention, Sports, and Entertainment Facilities)	11/1/2026	4,007,510	546,479	4,553,989
Total		<u>\$24,507,010</u>	<u>\$1,752,384</u>	<u>\$26,259,394</u>

**Appropriation Obligations**

On May 15, 2001, the City became obligated to pay \$14,465,000 in lease revenue bonds (the “2001 Lease Revenue Bonds”) issued through the City of San Antonio, Texas Municipal Facilities Corporation (the “Corporation”) to provide funds for the construction of the “Development & Business Services Center Project”, a municipal office facility. The City and the Corporation entered into a lease whereby the Corporation agreed to cause such facility to be built and leased by the City. The lease commenced on May 15, 2001 and the City agreed to pay annual lease payments, subject to annual appropriation, sufficient to pay principal and interest on the 2001 Lease Revenue Bonds when due. On March 31, 2010, the Corporation delivered its Lease Revenue Refunding Bonds, Series 2010 (the “2010 Lease Revenue Refunding Bonds”) to refund the callable portion of the 2001 Lease Revenue Bonds to achieve debt service savings.

On August 10, 2011, the Corporation issued its Lease Revenue Bonds, Series 2011 (the “2011 Lease Revenue Bonds”). The proceeds from the 2011 Lease Revenue Bonds were utilized to fund the construction of a new Fire and Police Emergency Dispatch Center, also known as the Public Safety Answering Point (“PSAP”) facility located at Brooks City-Base, adjacent to the Emergency Operations Center. See “City of San Antonio, Texas – General Demographic and Economic Information” attached hereto as APPENDIX A for a description of Brooks City-Base (“Brooks”). Proceeds of the 2011 Lease Revenue Bonds were also used to construct a parking lot for joint use by the new PSAP facility and the City’s Emergency Operations Center. The new PSAP facility replaces the original PSAP facility located in the City’s Police Headquarters. Similar to the City’s Development & Business Service Center project’s structure, the City and the Corporation entered into a lease agreement whereby the Corporation has agreed to cause the PSAP facility to be built and leased by the City. The City has agreed to make annual lease payments, subject to annual appropriation, sufficient to pay principal and interest on the 2011 Lease Revenue Bonds when due.

The Corporation’s indebtedness related to the two projects identified above represent separate, distinct, and unrelated financing regimes of the Corporation, each secured by and payable solely from separate sources of security that are unrelated to the other. A security source for one debt regime is not available for payment of the other and a default with respect to debt of one financing regime will not directly result in a default of debt incurred under the other. The Corporation is permitted under State law to incur additional debt under an existing regime or to create new regimes under which additional, unrelated debt may be incurred.

The table below shows the combined debt service schedule for the outstanding 2010 Lease Revenue Refunding Bonds and the 2011 Lease Revenue Bonds. In addition to the debt service on those bonds, the lease payments paid by the City include other expenses related to the operation and maintenance of the respective facilities.

Fiscal Year Ending 9/30	Principal	Interest	Annual Debt Service
2020	\$ 1,750,000	\$ 1,141,825.00	\$ 2,891,825.00
2021	690,000	1,083,287.50	1,773,287.50
2022	715,000	1,059,137.50	1,774,137.50
2023	745,000	1,030,537.50	1,775,537.50
2024	775,000	1,000,737.50	1,775,737.50
2025	805,000	969,737.50	1,774,737.50
2026	840,000	935,525.00	1,775,525.00
2027	875,000	899,825.00	1,774,825.00
2028	910,000	862,637.50	1,772,637.50
2029	950,000	821,687.50	1,771,687.50
2030	995,000	778,937.50	1,773,937.50
2031	1,040,000	731,675.00	1,771,675.00
2032	1,090,000	682,275.00	1,772,275.00
2033	1,145,000	630,500.00	1,775,500.00
2034	1,200,000	573,250.00	1,773,250.00
2035	1,260,000	513,250.00	1,773,250.00
2036	1,325,000	450,250.00	1,775,250.00
2037	1,390,000	384,000.00	1,774,000.00
2038	1,460,000	314,500.00	1,774,500.00
2039	1,530,000	241,500.00	1,771,500.00
2040	1,610,000	165,000.00	1,775,000.00
2041	1,690,000	84,500.00	1,774,500.00
	<u>\$ 24,790,000</u>	<u>\$15,354,575.00</u>	<u>\$40,144,575.00</u>

<sup>1</sup> As of August 29, 2019.

In addition to the foregoing, the City Council, on June 14, 2012, adopted an ordinance creating the City of San Antonio, Texas Public Facilities Corporation (the “City PFC”), a Texas public facilities corporation created and existing under Chapter 303, as amended, Texas Local Government Code, for the purpose of refinancing and restructuring the City’s then outstanding indebtedness supporting the Henry B. Gonzalez Convention Center (see

“THE CITY – Debt Management” herein) and to provide additional financing for a significant renovation and expansion of the same. On October 31, 2012, the City PFC issued its \$550,373,641.50 Improvement and Refunding Lease Revenue Bonds, Series 2012 (Convention Center Refinancing and Expansion Project) (the “Convention Center Lease Revenue Bonds”), the resultant proceeds from which, in the approximate amount of \$325 million, were used to finance the renovation and expansion of the existing Henry B. Gonzalez Convention Center and the remainder to refinance all then-outstanding Henry B. Gonzalez Convention Center related debt.

The City and the City PFC entered into a lease/sublease arrangement, whereby the City leased to the City PFC the Henry B. Gonzalez Convention Center for a nominal amount and the City PFC subleased the same facility back to the City for an amount of rent, subject to annual appropriation, sufficient to pay, when due and owing, scheduled debt service on the Convention Center Lease Revenue Bonds. Under the aforementioned lease agreements, the City retains responsibility for the maintenance and operation of the Henry B. Gonzalez Convention Center, as well as the costs therefor. The City is also responsible for managing the construction project that is the renovation and expansion of the Henry B. Gonzalez Convention Center, but the cost of such renovation and expansion is the obligation of the City PFC (to be paid from the proceeds of the Convention Center Lease Revenue Bonds). The City PFC’s pledge of the “subject to annual appropriation” lease payments to be received from the City pursuant to the aforementioned sublease represents the source of security for and payment of the Convention Center Lease Revenue Bonds. No mortgage on any leasehold interest in or the real property comprising the Henry B. Gonzalez Convention Center is granted as additional security for the Convention Center Lease Revenue Bonds.

Design for the Henry B. Gonzalez Convention Center Expansion project was completed in July of 2013 and construction began soon afterwards. The scope of the 726,000 square foot (“sf”) expansion involved demolishing portions of the existing west-side and expanding the convention center to the east. The east expansion reached substantial completion and was functional beginning in February 2016. The expansion includes 260,000 sf of exhibit hall space; an 86,000 sf column-free multi-purpose/plenary hall; 24 meeting rooms; a 54,000 sf ballroom; pre-function space; expansion of the main kitchen and additional food and beverage offerings; back of house support spaces; a 22- bay loading dock and maintenance building; a state-of-the-art meeting room that is cantilevered over a main downtown thoroughfare; an exterior café; and a grand lobby entrance. Demolition of the west wing was completed at the end of July 2016. Renovation of the existing west building was substantially complete and functional in February 2017. The overall project reached final completion in September 2018.

(The remainder of this page is intentionally left blank.)

The table below shows the debt service schedule for the Convention Center Lease Revenue Bonds:

Convention Center Lease Revenue Bonds Debt Service Requirements <sup>1</sup>				
Fiscal Year Ending 9/30	CIB Principal (\$)	CIB Interest (\$)	CAB Maturity Amount (\$)	Total Debt Service Requirement (\$)
2019	2,995,000.00	10,490,875.00	-	13,485,875.00
2020	3,115,000.00	20,861,950.00	-	23,976,950.00
2021	3,270,000.00	20,706,200.00	-	23,976,200.00
2022	5,540,000.00	20,542,700.00	-	26,082,700.00
2023	7,050,000.00	20,265,700.00	-	27,315,700.00
2024	8,720,000.00	19,913,200.00	-	28,633,200.00
2025	10,545,000.00	19,477,200.00	-	30,022,200.00
2026	12,260,000.00	18,949,950.00	-	31,209,950.00
2027	15,460,000.00	18,336,950.00	-	33,796,950.00
2028	17,400,000.00	17,873,150.00	-	35,273,150.00
2029	19,460,000.00	17,329,400.00	-	36,789,400.00
2030	22,000,000.00	16,356,400.00	-	38,356,400.00
2031	24,475,000.00	15,476,400.00	-	39,951,400.00
2032	27,075,000.00	14,497,400.00	-	41,572,400.00
2033	29,910,000.00	13,414,400.00	-	43,324,400.00
2034	32,935,000.00	12,218,000.00	-	45,153,000.00
2035	16,215,000.00	10,900,600.00	19,930,000.00	47,045,600.00
2036	-	10,252,000.00	38,760,000.00	49,012,000.00
2037	-	10,252,000.00	40,805,000.00	51,057,000.00
2038	42,930,000.00	10,252,000.00	-	53,182,000.00
2039	46,850,000.00	8,534,800.00	-	55,384,800.00
2040	51,005,000.00	6,660,800.00	-	57,665,800.00
2041	55,420,000.00	4,620,600.00	-	60,040,600.00
2042	60,095,000.00	2,403,800.00	-	62,498,800.00
	<u>514,725,000.00</u>	<u>340,586,475.00</u>	<u>99,495,000.00</u>	<u>954,806,475.00</u>

<sup>1</sup> As of August 29, 2019.

The City has a loan from a private institution, evidenced by a note, in the amount of \$20,900,000 for the purpose of financing capital improvements related to the City's Pre-K 4 SA Early Childhood Education Program (the "Pre-K 4 SA Program") and other general City purposes. (See "REVENUE SOURCES AND EXPENDITURES – Sales Taxation" herein.) The City anticipates that the debt service on this obligation will be satisfied by a transfer to the City of a portion of the revenues derived from the imposition and collection of the sales and use tax for the operation and maintenance of the Pre-K 4 SA Program. This obligation is payable from any lawfully available revenue of the City, subject to annual appropriation by the City Council, with final maturity thereof occurring on February 1, 2020. The table below shows the debt service schedule for this "subject to annual appropriation" obligation.

Pre-K 4 SA Program Revenue Notes Debt Service Requirements <sup>1</sup>			
Fiscal Year Ending 9/30	Principal	Interest	Annual Debt Service
2020	\$ 3,335,000	\$ 38,686	\$ 3,373,686
	<u>\$ 3,335,000</u>	<u>\$ 38,686</u>	<u>\$ 3,373,686</u>

<sup>1</sup> As of August 29, 2019.

## **AD VALOREM TAXATION**

### **Authority to Levy Ad Valorem Taxes; Tax Rate Limitations**

The State Constitution and the City Charter provide that the ad valorem taxes levied by the City for general purposes and for the purpose of paying the principal of and interest on the City's indebtedness must not exceed \$2.50 for each \$100 of assessed valuation of taxable property. There is no constitutional or statutory limitation within the \$2.50 rate for interest and sinking fund purposes; however, the Texas Attorney General, who must approve the issuance of the 2019 Obligations, has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from \$1.50 of the foregoing \$2.50 maximum tax rate calculated at 90% collections. In addition, Section 1331.051, Texas Government Code, as amended, and the City Charter prohibit the total debt of the City from exceeding 10% of the total assessed valuation of property shown by the last assessment roll, and the City Charter excludes (1) any indebtedness secured in whole or in part by special assessments, (2) the debt of any improvement district, and (3) any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. The issuance of the 2019 Obligations does not result in the City's violation of these provisions. (See "DEBT AND TAX RATE LIMITATIONS" herein.)

### **Texas Property Tax Code and County-Wide Appraisal District**

The Texas Property Tax Code, located at Title 1, Texas Tax Code, as amended (the "Property Tax Code"), specifies the taxing procedures of all political subdivisions of the State, including the City. The provisions of the Property Tax Code are complex and are not fully summarized here.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Bexar Appraisal District (the "Appraisal District") has the responsibility for appraising property for all taxing units within Bexar County. Such appraisal values are subject to review and change by the Bexar Appraisal Review Board.

Once the appraisal roll is prepared and approved by the Bexar Appraisal Review Board, the appraisal roll is forwarded to the City for calculation of its tax rates in accordance with Truth-in-Taxation guidelines. Assessments under the Property Tax Code are based on 100% of market value. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan shall provide for reappraisal of all real property at least once every three years.

The City, by resolution adopted by its governing body, may require the Appraisal District to appraise all property within the City or to identify and appraise newly annexed territory and new improvements in the City as of a date specified in the resolution. The City must pay the Appraisal District for the cost of making such an appraisal. While such a current estimate of appraised value may serve to indicate the growth of taxable values within the City, it may not be used by the City as the basis for the imposition of property taxes.

Under certain circumstances, taxpayers and taxing units (such as the City) may appeal the orders of the Bexar Appraisal Review Board by timely filing a petition for review in State District Court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

### **Property Subject to Taxation by the City**

Except for certain exemptions provided by State law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible property with a tax status in the City is subject to taxation by the City. Principal categories of exempt property include, but are not limited to, property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; implements of husbandry that are used in the production of ranch and farm products; family supplies for home or farm use; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious

organizations, certain community housing development organizations' property, and qualified schools; designated historical sites; and tangible personal property not held for the production of income (unless the City elects to tax such tangible personal property).

### ***Residential Homestead Exemptions***

The Property Tax Code authorizes the governing body of each political subdivision in the State, at its option, to exempt up to 20% of the appraised value of residential homesteads from ad valorem taxation, with a minimum exemption of \$5,000. The City may be required to offer such an exemption if a majority of voters approve it at an election. The City would be required to call such an election upon petition by 20% of the number of qualified voters who voted in the preceding election. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of this additional residence homestead exemption may be considered each year, but must be adopted by July 1. Additionally, the City may grant an exemption to an individual who is disabled or is 65 years of age or older in a fixed amount of no less than \$3,000 of assessed value. The City currently grants a \$65,000 residential homestead exemption to persons 65 years of age or older effective immediately upon their 65th birthday and a \$12,500 residential homestead exemption to persons who meet the definition of disabled for the purpose of payment of disability insurance benefits under the Federal Old-Age, Survivors, and Disability Insurance Act.

The City has established a limitation, or tax freeze, on the ad valorem taxes imposed on the homestead of a person who is disabled or 65 years of age or older. The total amount of ad valorem taxes imposed by the City on a homestead that receives the exemption may not be increased while it remains the residence homestead of that person or that person's spouse who is disabled or 65 years of age or older, except to the extent the value of the homestead is increased by improvements other than repairs and other than improvements made to comply with governmental requirements.

The surviving spouse of an individual qualifying for the homestead exemption is entitled to also receive such exemption if: (1) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (2) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse, and (3) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

### ***Disabled/Deceased Veterans' Exemptions***

The Property Tax Code mandates that a disabled veteran or certain surviving dependents are entitled to an exemption from taxation of a portion of the assessed value of a property they own. The amount of this exemption ranges from \$5,000 to \$12,000 and the exemption amount is based on the disability rating of the veteran as certified by the U.S. Department of Veterans Affairs.

A partially disabled veteran or the surviving spouse of a partially disabled veteran, if such spouse has not remarried since the death of the disabled veteran and the property was the residence homestead of the surviving spouse when the disabled veteran died and remains the residence homestead of the surviving spouse, is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated to the disabled veteran by a charitable organization at no cost to the disabled veteran, or at some cost to the disabled veteran in the form of a cash payment, a mortgage, or both in an aggregate amount that is not more than 50% of the good faith estimate of the market value of the residence homestead made by the charitable organization as of the date the donation is made. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

State law and Section 2, Article VIII of the Texas Constitution, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000. A disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability

and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. The surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

#### ***First Responder and Armed Services Surviving Spouse***

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

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

#### ***Historic Property Exemptions***

The City has granted an exemption to historically significant sites in need of tax relief to encourage preservation. Commercial buildings that meet definitions of historical sites and that have been substantially rehabilitated or restored will be exempt from taxation by the City for five tax years, and thereafter, will be taxed by the City at 50% of current assessed value for an additional five years. For the purposes of levying taxes, residential buildings meeting the definition of historical sites and having been substantially rehabilitated or restored will for a period of ten years retain the property value assessed prior to such rehabilitation or restoration.

#### ***Historic Preservation Area Exemptions***

The City offers a 20% tax exemption for owner-occupied residences located within new local historic districts. The exemption is effective on the first day of historic district designation and extends for a maximum of 15 years (ten years plus a five-year extension). The purpose of the exemption is to offset any potential property tax increases and to limit gentrification in the district, a term which refers to the effect of forcing lower-income residents in a neighborhood to move, which often includes a higher proportion of elderly residents, because of higher property taxes. Property taxes may or may not increase as a result of historic designation. The Appraisal District does not automatically increase the assessed valuations of designated properties. Appraisals are based upon real estate market factors that affect consumer demand in an area, of which historic designation is one.

#### ***Freeport Goods Exemptions***

"Freeport goods" are goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and other petroleum products, which have been acquired or brought into the State for assembling, storing, manufacturing, repair, maintenance, processing, or fabricating, or used to repair or maintain aircraft of a certified air carrier, and shipped out of the State within 175 days. The City has elected to allow the exemption of freeport goods from taxation.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit". "Goods-in-transit" is defined by the Property Tax Code as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and outboard motor, heavy equipment and manufactured housing inventory. The Property Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the first year in which goods-in-transit are proposed to be taxed, and after holding a public hearing, to take official action to tax goods-in-transit during the following tax year and to continue to tax

those goods until the action authorizing such taxation is rescinded or repealed. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property. Senate Bill 1 passed by the 82nd State Legislature first called session, requires that the governmental entities take affirmative action prior to December 31, 2011 to continue the taxation of goods-in-transit in the 2012 tax year and beyond.

The City currently taxes certain tangible personal property that does not qualify for the freeport exemption, but would qualify for the goods-in-transit exemption. As such, the City adopted an ordinance on November 17, 2011 that provides for the continued taxation of this tangible personal property for the 2012 tax year and beyond.

### ***Tax Abatement Agreements***

Through a tax abatement agreement, the City may exempt from ad valorem taxation up to 100% of the assessed value of any real and/or personal property improvements for up to ten years. The property is exempt on the condition that the property owner makes specified improvements or repairs to the property and meets any other City requirements stipulated in the terms of the tax abatement agreement such as the creation of jobs and meeting certain minimum wage requirements.

### ***Active Tax Abatement Agreements***

The following table depicts, as of December 2018, active agreements that are in the abatement period:

Company	Abatement Period	Term (Years)	Percent of Abatement & Type
Nationwide – Phase I	2011-2020	10	Personal @ 100%
Toyota Motor Manufacturing	2011-2020	10	Personal @ 100%
TX Solar	2011-2020	10	Personal @ 50%
Petco Animal Supplies	2012-2021	10	Real & Personal @ 100%
Nationwide – Phase II	2013-2022	10	Real & Personal @ 100%
Glazer's Investments	2014-2023	10	Real & Personal @ 100%
CyrusOne	2015-2020	6	Real & Personal @ 50%
United Parcel Services, Inc.	2015-2020	6	Real & Personal @ 40%
Security Service Federal Credit Union	2017-2026	10	Real & Personal @ 100%
AmeriCredit Financial Services	2017-2022	6	Real & Personal @ 50%
Holt Texas, Ltd.	2017-2026	10	Real & Personal @ 100%
Hulu LLC	2018-2023	6	Real & Personal @ 100%
Ernst & Young 1 & 2 *	2019-2024	6	Real & Personal @ 100%
Credit Human Federal Credit Union	2020-2029	10	Real & Personal @ 100%
USAA	2020-2029	10	Real & Personal @ 100% (\$2M max benefit)

\* All capital investments made through EY1 and EY2 are captured under one tax abatement agreement as the projects share the same project site.

### ***Residence Homestead Appraised Value 10% Limitations***

All real and personal property of the City within Bexar County must be appraised by the Appraisal District at market value as of January 1 of each year. State law, however, provides for limitations on appraised value of residential homesteads. The appraised value of a residential homestead may not exceed the lesser of:

1. the market value of the property for the most recent tax year that the market value was determined by the appraisal office, or



2. the sum of:
  - a. 10% of the appraised value of the property for the preceding tax year;
  - b. the appraised value of the property for the preceding tax year; and
  - c. the market value of all new improvements to the property.

State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property.

#### ***Agricultural Productivity Loss***

The Property Tax Code also provides special appraisal of open-space land devoted to farm, ranch, or wildlife management purposes on the basis of its productive capacity rather than its market value. If the open space designation is lost by changing the use of the property, the City can impose taxes on the land equal to the difference between the taxes imposed on the land for each of the five years preceding the year in which the change of use occurs and the tax that would have been imposed had the land been taxed on the basis of market value.

#### ***Pollution Control Exemptions***

Real or personal property used wholly or partly as a facility, device, or method for the control of air, water, or land pollution is exempt from ad valorem taxation. Property used for residential purposes is ineligible for this exemption.

#### ***Low Income Housing Exemptions***

Property owned by a qualifying organization is exempt from ad valorem taxation of improved or unimproved real property if the organization uses volunteer labor to build or repair housing on the property to sell without profit to a low/moderate income individual/family or to rent without profit to such an individual/family.

#### ***Community Housing Development Organizations***

Real property owned by a qualifying organization that is engaged exclusively in building or repairing property for sale or rent without profit to low or moderate income individuals is exempt from ad valorem taxation. There are restrictions on eligibility and requirements pertaining to the numbers of years property may be exempted.

#### ***Solar and Wind Powered Devices***

A person is entitled to an exemption from taxation of the amount of appraised value of his property that arises from the installation or construction of a solar or wind-powered energy device that is primarily for production and distribution of energy for on-site use.

#### ***Personal Property Vehicles***

A motor vehicle that is considered business personal property which is also used for personal reasons is exempt from taxation.

#### ***Absolute Exemptions***

Property owned by the following organizations is exempt from ad valorem taxation:

1. Property exempt from taxation by federal law;
2. Property owned by the State or political subdivisions of the State (municipalities, counties, etc.) if the property is used for public purposes;
3. Property owned by a school, operated primarily for the purpose of engaging in educational functions, and organized as a non-profit corporation;

4. Property held for a non-profit entity and used exclusively for human burial (cemeteries);
5. Property owned by an organization that qualifies as a religious organization; and
6. Property owned by organizations engaged primarily in performing charitable functions.

### ***Pro-Rated Exemptions***

If the federal government, the State, or a political subdivision of the State acquires title to taxable property, the amount of the tax due on the property is calculated by multiplying the amount of taxes imposed on the property for the entire year by a fraction, the denominator of which is 365 and the numerator of which is the number of days that elapsed prior to the date of the conveyance.

### ***Effective Tax Rate and Rollback Tax Rates: 2019 Legislative Changes***

*Historical Practice.* The City must annually calculate and publicize its “effective tax rate” and “rollback tax rate”. The City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate until it has held two public hearings on the proposed increase following notice to the taxpayers and otherwise complied with the Property Tax Code. If the adopted tax rate exceeds the rollback tax rate, the qualified voters of the City, by submission of a valid petition, may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

“*Effective tax rate*” means the rate that will produce last year’s total tax levy (adjusted) from this year’s total taxable values (adjusted).

“*Adjusted*” means lost values are not included in the calculation of last year’s taxes and new values are not included in this year’s taxable values.

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

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

*Revised Methodology.* The Texas Property Tax Reform and Transparency Act (the “Tax Act”), adopted in the 86th Regular Legislative Session, amends portions of the Texas Tax Code relating to the City’s ability to increase its ad valorem tax rate in a given year. The Tax Act renames the effective tax rate as the “no-new-revenue tax rate,” the effective maintenance and operations tax rate as the “no-new-revenue maintenance and operations tax rate,” and the rollback tax rate as the “voter-approval tax rate.” Under the Tax Act, municipalities such as the City may not adopt a tax rate that produces more than 103.5% of the prior year’s maintenance and operations tax levy (adjusted) unless the tax rate is approved by the voters of the City at a mandatory election held on the November uniform election date (the first Tuesday after November 1). Under prior State law, the qualified voters of the City could require such an election only by submission of a valid petition and only if the adopted tax rate produced more than 108% of the prior year’s maintenance and operations tax revenue.

Further, under the Tax Act, the City is required to calculate its no-new-revenue tax rate and voter-approval tax rate on forms prescribed by the Texas Comptroller and post them prominently on the City’s website (1) the no-new-revenue tax rate and voter-approval tax rate; (2) the City’s estimated maintenance and operations and interest and sinking fund balances at the end of the year; and (3) a schedule of the City’s outstanding debt obligations, including the amount of principal and interest to be paid from property tax revenue in the ensuing year. Furthermore, the Tax Act imposes new requirements on the City and the Appraisal District in an effort to increase transparency in the taxation process. At the request of the owner of a residential property occupied as the owner’s principal residence, the Appraisal District will be required to provide notice by email of (1) a change in appraised value of the property; (2) the eligibility of the property for an exemption; or (3) the grant, denial, cancellation, or other change in the status of an exemption or exemption application applicable to the property. The Appraisal District is also required to

notify any property owner who has not claimed a homestead exemption on their primary residence that the subject property may qualify for such exemption.

The Tax Act additionally modifies State law with respect to protesting property appraisals within the City. The chairman and secretary of the Appraisal Review Board are now selected by a local district judge, rather than a majority of the board members. All determinations by the Appraisal Review Board may be made by a simple majority of board members present. Unless requested and agreed to by the property owner, the Appraisal Review Board may not determine the appraised value of a property under protest to be an amount greater than the appraised value of the property shown on the appraisal roll submitted by the Appraisal District.

Under the Tax Act, the Appraisal Review Board must establish a special review panel comprised of certain professionals by which owners of real and personal property valued at \$50 million or more and designated as commercial, utilities, industrial and manufacturing, or multifamily residential may protest Appraisal District valuations. The special review panel may conduct protest hearings for property outside these classifications as the chairman of the Appraisal Review Board determines, but only if the property owner so requests or consents. With limited exceptions, the special review panel must consist of holders of a juris doctorate or master of business administration degree, licensed certified public accountants, senior appraisers accredited by the American Society of Appraisers, MAI Designated members of the Appraisal Institute, or assessment evaluators certified by the International Association of Assessing Officers, or those having at least 10 years of experience in property tax appraisal or consulting. The Appraisal District must notify each qualifying property owner of their right to protest the Appraisal District's valuation directly to the special review panel when it provides notice of the subject property's assessed valuation. The Texas Comptroller will also make available to taxpayers a survey by which they may submit comments and suggestions on the fairness and efficiency of the tax protest process.

Portions of the Tax Act take effect on January 1, 2020, with the balance of its provisions taking effect on September 1, 2020. The amendments to State law provided by the Tax Act will not affect the City's ability to levy and collect ad valorem taxes for the payment of its outstanding debt obligations, including the 2019 Obligations. The Tax Act will not have a material adverse impact on the City's ability repay its debt obligations.

### ***Taxpayer Remedies***

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the City and provides for taxpayer referenda, which could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

### ***Levy and Collection of Taxes***

By the later of September 30 or 60 days after the certified appraisal roll is delivered to the City, the rate of taxation is adopted by the City Council based upon the taxable valuation of property within the City as of the preceding January 1. The City has executed an inter-local agreement with the Bexar County Tax Assessor/Collector's Office to provide property tax billing and collection services at the same level of service to its citizens as previously provided by the City.

Property taxes are due and payable on October 1 and considered delinquent if not paid by the following January 31. A delinquent tax incurs a penalty of 6% for the first calendar month it is delinquent, plus 1% for each of the following four months, and 2% for the sixth month it is delinquent, for a total of 12%. A delinquent tax also incurs interest at the rate of 1% per month until paid in full. If a tax is not paid before July 1 of the year in which it becomes delinquent, the tax incurs an additional fee of up to 20% to offset the costs of collection.

The City does not allow for discounts for early payment, but does allow for split payment of property taxes (one-half before December 1, and the remaining one-half without penalty and interest before July 1 of the following year). The City allows for installment payments (one-fourth before February 1, one-fourth before April 1, one-fourth before June 1, and the remaining one-fourth before August 1) for homeowners who are disabled, disabled veterans, or at least 65 years of age and who qualify for the residential homestead exemption; these homeowners may also defer the collection of tax until the individual no longer owns the property. These same homeowners are offered an

additional 10-month payment plan. Payments are due at the beginning of each month, starting in October and continuing through July of the following year.

### ***City's Rights in the Event of Tax Delinquencies***

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

At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem a residence homestead property within two years after the purchaser's deed is filed for record), or by bankruptcy proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

### ***Tax Increment Reinvestment Zone Financing***

The City has approved a "TIF Manual" for the utilization of Tax Increment Financing ("TIF") and the creation of Tax Increment Reinvestment Zones ("TIRZ") pursuant to Chapter 311 of the Texas Property Tax Code, as amended. Since 1998, the City has utilized TIF as a vehicle to fund in whole or in part eligible capital costs for public infrastructure related to economic development, commercial, and residential projects. As of September 30, 2018, there were 20 existing TIRZ with a total taxable captured value of \$3,782,266,564. For FY 2018, this total taxable captured value will produce \$18,681,513 in tax increment revenues for use by the City to pay for the capital costs of certain public infrastructure improvements in the TIRZ. The existing TIRZ have terms ranging from 19 to 38 years and are anticipated to expire starting in FY 2019 through FY 2045. It is estimated that the City will contribute approximately \$476,447,859 in tax increment revenues in aggregate over the life of these TIRZ projects. The existing TIRZ are referred to as Rosedale, Highland Heights, Mission del Lago, Houston Street, Stablewood Farms, Inner City, Plaza Fortuna, Lackland Hills, North East Crossing, Brooks City-Base, Mission Creek, Hallie Heights, Heathers Cove, Hunters Pond, Verano, Westside, Midtown, Mission Drive-In, North East Corridor, and Hemisfair Park.

### ***Economic Development Grants***

The Economic Development Department ("EDD") utilizes economic development grants pursuant to Chapter 380 of the Texas Local Government Code to incentivize jobs, wages, and investment. Currently, EDD has disbursed \$17 million of the total \$47 million awarded in economic development grant funds for the 64 active economic development grant agreements that the department monitors. These agreements are funded with ad valorem taxes paid to the City by developers on the value of their developments.

## **DEBT AND TAX RATE LIMITATIONS**

The State Constitution and the City Charter provide that the ad valorem taxes levied by the City for general purposes and for the purpose of paying the principal of and interest on the City's indebtedness must not exceed \$2.50 for each \$100 of assessed valuation of taxable property. There is no constitutional or statutory limitation within the \$2.50

rate for interest and sinking fund purposes; however, the Texas Attorney General, who must approve the issuance of the 2019 Obligations, has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from \$1.50 of the foregoing \$2.50 maximum tax rate calculated at 90% collections. In addition, Section 1331.051, Texas Government Code, as amended, and the City Charter prohibit the total debt of the City from exceeding 10% of the total assessed valuation of property shown by the last assessment roll, and the City Charter excludes (1) any indebtedness secured in whole or in part by special assessments, (2) the debt of any improvement district, and (3) any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. The issuance of the 2019 Obligations does not result in the City's violation of these provisions.

The following obligations, among others, may be issued by the City:

- Ad valorem tax-supported debt may be issued to finance capital improvements and to refund obligations previously issued for such purpose. A majority vote of the qualified voters is ordinarily required to authorize the issuance of ad valorem tax-supported debt, other than refunding bonds, certificates of obligation, tax anticipation notes, and public property finance contractual obligations.
- Certificates of obligation may be issued for the purpose of paying contractual obligations incurred in the construction of public works or the purchase of land, materials, and other supplies or services for the City's needs and for professional services without an election except under certain circumstances. The certificates of obligation may be refunded by ad valorem tax-supported bonds without an election. In addition, the City may issue certificates of obligation with a pledge of both tax and revenues derived from the operation of the facility to be acquired, or from any other lawful source, provided that the City otherwise has the right to pledge the revenues involved. Authority for the issuance of certificates of obligation is subject to notice by publication and right of referendum by the voters.
- Contractual obligations are generally issued to finance personal property, and tax anticipation notes may be issued for capital improvements. Both the contractual obligations and tax anticipation notes may be issued and secured by ad valorem taxes, and refunded by ad valorem tax-supported bonds, without an election. The issuance of contractual obligations and tax anticipation notes does not require publication of notice or voter approval. Contractual obligations are limited to 25 years amortization or less; tax anticipation notes are limited to seven years amortization or less.
- Revenue bonds may be issued for certain purposes which include the financing of the water, municipal drainage and sanitary sewer systems, electric and gas systems, convention centers, airports and parking systems, and other economic development projects. The revenue bond indebtedness is not considered in determining the legal debt margin on ad valorem tax-supported obligations. Revenue bond indebtedness, in certain cases, can be refunded by ad valorem tax-supported bonds without an election.
- Appropriation obligations may be issued to finance capital improvements and to refund obligations previously issued for such purpose. The City has incurred ongoing obligations related to the issuance of annual appropriation obligations. The payment of debt service of appropriation obligations is subject to appropriation by the City Council. (See "DEBT STATEMENT: ASSESSED VALUATION, OUTSTANDING DEBT PAYABLE FROM AD VALOREM TAXES, AND DEBT RATIOS – Appropriation Obligations" herein.)

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**Tax Data****Table 7**

Tax Year	Fiscal Year	Net Taxable Assessed Valuation (\$) <sup>1</sup>	Tax Rate (\$)	Tax Levy (\$) <sup>2</sup>	Percent Collections Current (%)	Percent Collected Total (%) <sup>3</sup>
2009	2010	72,743,219,689	0.56569	405,896,458	97.90	98.85
2010	2011	71,007,546,958	0.56569	396,621,452	98.18	99.36
2011	2012	70,681,198,861	0.56569	395,465,973	98.42	99.60
2012	2013	71,398,955,135	0.56569	400,054,776	98.68	99.48
2013	2014	74,612,066,281	0.56569	417,936,362	98.93	99.27
2014	2015	79,230,253,859	0.56569	442,164,120	99.00	99.28
2015	2016	89,341,511,070	0.55827	489,747,494	98.98	99.42
2016	2017	98,190,156,056	0.55827	535,504,898	98.96	99.24
2017	2018	105,670,285,216	0.55827	573,756,629	98.89	98.89
2018	2019	114,652,832,752	0.55827	620,206,657	In Process of Collection	

<sup>1</sup> Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.

<sup>2</sup> Tax levy, less the 65 years of age and older and disabled homeowners' tax freeze.

<sup>3</sup> Includes collection of prior years' tax levies in subsequent years.

**Tax Rate Distribution****Table 8**

Tax Rate	Fiscal Year Ended September 30				
	2019	2018	2017	2016	2015
General Fund	\$0.34677	\$0.34677	\$0.34677	\$0.34677	\$0.35419
Interest and Sinking Fund	0.21150	0.21150	0.21150	0.21150	0.21150
Total Tax Rate	\$0.55827	\$0.55827	\$0.55827	\$0.55827	\$0.56569

**Principal Taxpayers****Table 9**

Name	Type of Property	FY 2019 Taxable Assessed Valuation	Percent of FY 2019 Taxable Assessed Valuation (%)
H.E. Butt Grocery Company	Retail/Grocery	\$1,314,283,311	1.15
Microsoft Corporation	Software Developer	747,241,090	0.65
United Services Automobile Association	Insurance/Banking	737,788,196	0.64
Methodist Healthcare System	Hospital/Healthcare	693,154,894	0.60
Wal-Mart Stores, Inc.	Retail/Grocery	648,627,520	0.57
VHS San Antonio Partners LP	Hospital/Healthcare	625,072,637	0.55
Toyota Motor Manufacturing Texas, Inc.	Automobile Manufacturer	567,389,828	0.49
General Growth Properties, Inc.	Shopping Center	537,618,470	0.47
Frankel Family Trust	Apartments	386,095,350	0.34
Schlumberger Technology Corporation	Petroleum Engineering	361,736,930	0.32
Total		\$6,619,008,226	5.78

(The remainder of this page is intentionally left blank.)

**Net Taxable Assessed Valuation for Tax Years 2009-2018****Table 10**

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation (\$)¹	Change From Preceding Year	
			Amount (\$)	Percent (%)
2009	2010	72,743,219,689	-	-
2010	2011	71,007,546,958	(1,735,672,731)	(2.39)
2011	2012	70,681,198,861	(326,348,097)	(0.46)
2012	2013	71,398,955,135	717,756,274	1.02
2013	2014	74,612,066,281	3,213,111,146	4.50
2014	2015	79,230,253,859	4,618,187,578	6.19
2015	2016	89,341,511,070	10,111,257,211	12.76
2016	2017	98,190,156,056	8,848,644,986	9.90
2017	2018	105,670,285,216	7,480,129,160	7.62
2018	2019	114,652,832,752	8,982,547,536	8.50

¹ Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.

**Net Taxable Assessed Valuation and Ad Valorem Tax Debt\*,¹****Table 11**

Tax Year	Fiscal Year Ended 9/30	Net Taxable Assessed Valuation (\$)²	Ad Valorem Gross Debt (\$)	Debt Ratios Percent (%)
2009	2010	72,743,219,689	1,300,330,000	1.79
2010	2011	71,007,546,958	1,303,345,000	1.84
2011	2012	70,681,198,861	1,384,630,000	1.96
2012	2013	71,398,955,135	1,406,185,000	1.97
2013	2014	74,612,066,281	1,494,770,000	2.00
2014	2015	79,230,253,859	1,595,530,000	2.01
2015	2016	89,341,511,070	1,624,100,000	1.82
2016	2017	98,190,156,056	1,710,550,000	1.74
2017	2018	105,670,285,216	1,915,155,000	1.81
2018	2019	114,652,832,752		

\* Preliminary, subject to change.

¹ As of July 31, 2019.

² Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.

**Authorized but Unissued Ad Valorem Tax Debt****Table 12**

Date of Authorization	Improvements	Amount Authorized	Debt Issued To Date¹	2019 Bonds²	Debt Authorized But Unissued
5/06/2017	Streets, Bridges, and Sidewalks	\$445,263,000	\$ 131,304,273	\$131,914,300	\$182,044,427
5/06/2017	Drainage and Flood Control	138,988,000	47,545,008	31,408,900	60,034,092
5/06/2017	Parks, Recreation, and OpenSpace	187,313,000	62,223,630	59,407,500	65,681,870
5/06/2017	Library, Museum, and Cultural Arts Facilities	24,025,000	6,773,493	7,819,700	9,431,807
5/06/2017	Public Safety Facilities	34,411,000	9,613,556	10,979,600	13,817,844
5/06/2017	Neighborhood Improvements	20,000,000	12,000,000	8,000,000	-
		<u>\$850,000,000</u>	<u>\$269,460,000</u>	<u>\$249,530,000</u>	<u>\$331,010,040</u>

¹ Includes \$12,050,000 of reoffering premium allocated against voted authorization related to the Issuer's General Improvement Bonds, Series 2017 and \$14,490,000 of reoffering premium allocated against the 2017 voter authorization related to the Issuer's General Improvement Bonds, Series 2018.

² Preliminary, subject to change. Anticipated to include a portion of the reoffering premium from the sale of the 2019 Bonds allocated against the 2017 voter authorization.

# Classification of Assessed Valuation

Table 13

	Fiscal Year 2019	% of Total	Fiscal Year 2018	% of Total	Fiscal Year 2017	% of Total	Fiscal Year 2016	% of Total	Fiscal Year 2015	% of Total
Real, Residential, Single-Family	\$ 61,516,071,180	49.13	\$ 57,302,202,507	46.20	\$ 53,399,742,025	46.66	\$ 49,166,613,141	47.13	\$ 43,908,306,222	47.48
Real, Residential, Multi-Family	13,978,077,588	10.38	12,141,154,528	10.14	10,924,467,057	9.55	9,621,077,220	9.22	8,089,496,487	8.75
Real, Vacant Lots/Tracts	2,159,553,354	1.07	2,023,905,965	1.65	1,854,882,016	1.62	1,670,314,874	1.60	1,422,735,256	1.54
Real, Acreage (Land Only)	1,364,060,951	1.11	1,262,729,566	1.02	1,113,275,250	0.97	1,078,838,995	1.03	1,008,707,305	1.09
Real, Farm and Ranch Improvements	2,672,568	0.00	2,633,497	0.00	1,095,869	0.00	1,631,457	0.01	6,827,064	0.01
Real, Commercial	32,413,941,425	25.39	30,080,045,146	24.85	28,327,721,073	24.75	25,143,735,203	24.10	21,388,030,314	23.13
Real, Industrial	1,274,622,647	1.04	1,233,424,823	1.01	1,014,623,290	0.89	900,057,025	0.86	797,754,352	0.86
Real, Minerals Oil and Gas	45,796,320	0.04	43,887,830	0.04	41,065,120	0.04	38,870,360	0.04	44,190,779	0.05
Real and Tangible Personal Utilities	521,601,741	0.42	506,537,589	0.41	482,015,756	0.42	473,411,665	0.45	417,010,823	0.45
Tangible Personal, Commercial	9,417,108,789	7.62	8,975,168,192	7.34	8,577,774,766	7.50	8,166,374,577	7.83	7,868,969,101	8.51
Tangible Personal, Industrial	2,583,749,504	2.10	2,152,144,220	1.75	2,096,189,255	1.83	1,920,186,701	1.84	1,640,910,220	1.77
Tangible Personal, Mobile Homes	107,222,690	0.09	100,625,700	0.08	92,629,678	0.08	90,682,896	0.09	88,790,053	0.10
Real Property, Inventory	248,149,744	0.20	279,068,211	0.23	242,277,082	0.21	283,558,748	0.27	290,901,117	0.31
Special Inventory Tax	462,700,510	0.38	479,229,608	0.38	493,101,951	0.43	478,840,548	0.46	448,724,409	0.49
Exempt Property	6,552,576,965	1.03	6,257,901,030	4.90	5,784,946,322	5.05	5,287,364,463	5.07	5,050,505,736	5.46
<b>Total Assessed Value</b>	<b>\$ 132,647,905,976</b>	<b>100.00</b>	<b>\$ 122,840,658,412</b>	<b>100.00</b>	<b>\$ 114,445,806,510</b>	<b>100.00</b>	<b>\$ 104,321,557,873</b>	<b>100.00</b>	<b>\$ 92,471,859,238</b>	<b>100.00</b>
Less:										
Residence Homestead Exemptions –										
Optional 65 or Older	\$ 5,741,004,450		\$ 5,599,071,260		\$5,347,078,972		\$ 5,115,170,558		\$ 4,900,900,131	
Residence Homestead Exemptions – Disabled	98,402,179		109,092,580		111,859,669		114,561,196		117,558,232	
Disabled Veterans' Exemptions	185,512,216		195,805,743		194,561,744		193,288,253		190,091,411	
Disabled Veterans' 100% Exemptions	1,406,027,822		1,259,216,997		1,069,589,687		875,497,112		714,430,090	
Historical Property Exemptions	383,983,598		260,103,819		253,856,394		136,953,569		95,479,288	
Freeport Goods Exemptions	463,160,560		453,159,660		401,355,304		427,386,358		448,781,010	
Tax Abatement/Phase-In Exemptions	845,680,268		924,900,508		1,142,306,089		1,009,131,606		892,899,259	
Residence Homestead Appraised Value 10% Limitations	1,608,834,096		1,409,613,714		1,337,358,259		1,216,702,222		276,096,577	
Agricultural Productivity Loss	630,445,824		621,165,302		535,170,301		527,585,681		478,835,614	
Pollution Control Exemptions	73,567,357		75,463,180		72,847,548		73,049,323		73,185,293	
Low Income Housing Exemptions	115,698,868		121,723,896		119,480,839		112,646,750		96,442,150	
Absolute Value Exemptions	6,091,574,961		5,768,782,389		5,216,195,213		4,821,209,002		4,602,098,772	
Pro-Rated Exemptions	37,142,004		66,456,878		136,866,960		41,037,870		26,594,298	
Community Housing Development Organizations	306,909,431		299,419,267		310,582,590		310,414,311		323,257,895	
Armed Services Surviving Spouse Exemptions	5,582,300		4,879,403		4,720,165		3,356,462		2,823,309	
First Responder Surviving Spouse Exemptions <sup>1</sup>	191,010		-		-		-		-	
Personal Property Vehicle Exemptions	1,356,280		1,518,600		1,820,720		2,056,530		2,132,050	
<b>Total Exemptions</b>	<b>\$ 17,995,073,224</b>		<b>\$ 17,170,373,196</b>		<b>\$ 16,255,650,454</b>		<b>\$ 14,980,046,803</b>		<b>\$ 13,241,605,379</b>	
<b>Net Taxable Assessed Valuation <sup>2</sup></b>	<b>\$ 114,652,832,752</b>		<b>\$ 105,670,285,216</b>		<b>\$ 98,190,156,056</b>		<b>\$ 89,341,511,070</b>		<b>\$ 79,230,253,859</b>	

<sup>1</sup> First Responder Surviving Spouse Exemption took effect January 1, 2018.

<sup>2</sup> Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.



**Assessed Valuation and Tax Rate of Overlapping Issuers****Table 14**

Governmental Subdivision	FY 2019 Gross		FY 2019 Tax Rate
	Assessed Valuation <sup>1</sup>	FY 2019 Net Taxable Valuation <sup>1</sup>	
Alamo Colleges	\$185,068,619,827	\$164,661,746,655	0.149150
Alamo Heights Independent School District	8,015,069,459	7,532,083,599	1.255000
Bexar County	185,095,276,456	161,131,453,490	0.277429
Bexar County Road & Flood Control	185,095,276,456	166,855,501,266	0.023668
Bexar County Hospital District d.b.a. University Health System	185,068,619,827	166,614,314,649	0.276235
East Central Independent School District	5,206,087,568	4,023,085,921	1.325000
Edgewood Independent School District	2,081,022,739	1,490,981,661	1.377242
Harlandale Independent School District	2,458,531,402	1,898,983,124	1.558800
Judson Independent School District	11,564,899,208	9,943,952,383	1.440000
North East Independent School District	47,425,065,591	42,018,312,544	1.360000
Northside Independent School District	64,443,987,058	56,478,006,019	1.375500
San Antonio Independent School District	24,854,761,660	19,479,546,497	1.562600
San Antonio River Authority	185,068,619,827	165,532,999,629	0.018580
Somerset Independent School District	609,705,135	383,181,446	1.442173
South San Antonio Independent School District	2,557,375,378	1,838,343,813	1.451500
Southside Independent School District	1,971,454,612	1,534,463,562	1.575900
Southwest Independent School District	4,774,716,202	3,919,963,960	1.473000

<sup>1</sup> Assessed taxable valuation and tax rate data provided by Bexar Appraisal District as of July \_\_\_\_, 2019.

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# Direct and Overlapping Debt Data and Information

Table 15

The following table indicates the indebtedness, defined as outstanding obligations payable from ad valorem taxes ("Tax Debt"), of governmental entities overlapping the City, and the estimated percentages and amounts of such Tax Debt attributable to property within the City. Expenditures of the various taxing bodies overlapping the territory of the City are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the City. These political taxing bodies are independent of the City and may incur Tax Debt without any control of the City. The following statements of direct and estimated overlapping Tax Debt were developed from information obtained from each taxing entity. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have authorized or issued additional Tax Debt since the date stated below, and such entities may have programs requiring the authorization and/or issuance of additional Tax Debt, the amount of which cannot be determined.

Taxing Entity <sup>1</sup>	As of	Amount of Tax Debt Outstanding <sup>2</sup>	Percent Overlapping <sup>3</sup>	Amount of Tax Debt Overlapping
Alamo Colleges	9/30/18	\$ 467,863,348	71.55%	\$ 334,756,225
Alamo Heights Independent School District	9/30/18	198,020,895	50.76	100,515,406
Bexar County	9/30/18	1,601,659,721	71.68	1,148,069,688
Bexar County Hospital District				
d.b.a. University Health System	9/30/18	891,565,000	71.50	637,468,975
East Central Independent School District	9/30/18	123,168,603	49.39	60,832,973
Edgewood Independent School District	9/30/18	69,666,918	100.00	69,666,918
Harlandale Independent School District	9/30/18	216,957,362	12.53	27,184,757
Judson Independent School District	9/30/18	607,410,822	36.61	222,373,102
North East Independent School District	9/30/18	1,394,260,000	84.71	1,181,077,646
Northside Independent School District	9/30/18	2,181,853,269	71.78	1,566,134,276
San Antonio Independent School District	9/30/18	693,282,419	99.21	687,805,488
San Antonio River Authority	9/30/18	23,115,982	70.07	16,197,369
Somerset Independent School District	9/30/18	35,098,069	4.36	1,530,276
South San Antonio Independent School District	9/30/18	156,586,899	100.00	156,586,899
Southside Independent School District	9/30/18	93,138,828	32.95	30,689,244
Southwest Independent School District	9/30/18	388,567,913	65.50	254,511,983
Total Overlapping Tax Debt		\$ 9,142,216,048		\$ 6,495,401,225
City of San Antonio	9/30/18	\$ 1,915,155,000		\$ 1,915,155,000
Total Direct and Overlapping Tax Debt		\$ 11,057,371,048		\$ 8,410,556,225

Tax Year 2018 Actual Market Value of Taxable Property	\$ 132,647,905,976
Tax Year 2018 Net Taxable Assessed Valuation (100% of Actual Market)	\$ 114,652,832,752
Ratio of Direct and Overlapping Tax Debt to Actual Market Value	6.34%
Ratio of Direct and Overlapping Tax Debt to Net Taxable Assessed Value	7.34%
Per Capita Direct and Overlapping Tax Debt <sup>4</sup>	\$ 5,580
Note: The City's total net Tax Debt is \$1,626,424,917 <sup>5</sup> as of September 30, 2018. Calculations on the basis of total net Tax Debt would change the above figures as follows:	
Total Net Direct and Overlapping Tax Debt	\$ 7,636,931,311
Ratio of Net Direct and Overlapping Tax Debt to Actual Market Value	5.76%
Ratio of Net Direct and Overlapping Tax Debt to Net Taxable Assessed Value	6.66%
Per Capita Net Direct and Overlapping Tax Debt <sup>4</sup>	\$ 5,067

<sup>1</sup> Certain bonds issued by Texas independent school districts are eligible for payment from the State "Instructional Facilities Allotments" and from "Existing Debt Allotments". These bonds, while obligations of each district, are payable in part from direct allocations of State funds. Such funding varies between districts and from year to year depending upon the State's contribution, which is based on a district's property taxable wealth per student in average daily attendance.

<sup>2</sup> The amount of Tax Debt outstanding was obtained from each taxing entity.

<sup>3</sup> For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the City's boundaries and dividing it by each unit's total taxable assessed value.

<sup>4</sup> Based on the City's Information Technology Services Department estimated population of 1,507,192 in 2019.

<sup>5</sup> The interest and sinking fund balance for fiscal year ended September 30, 2018 was used to calculate this number.

## REVENUE SOURCES AND EXPENDITURES

### Sources of Revenues

The City's General Fund revenue sources include ad valorem taxes, sales taxes, franchise taxes, contributions from City-owned utilities, fines, penalties, licenses and permits, various service charges, and miscellaneous sources.

### General Fund Comparative Statement of Revenues and Expenditures and Analysis of Changes in Fund Balances

Table 16

The following statements set forth in condensed form reflect the historical operations of the City. The City has prepared such summary for inclusion herein based upon information obtained from the City's Comprehensive Annual Financial Report and financial records. Reference is made to such statements for further and complete information.

	Fiscal Year Ended September 30				
	2018	2017	2016	2015	2014 <sup>1</sup>
<b>Fund Balance – Beginning of Year</b>	\$ 284,148,950	\$ 255,109,523	\$ 243,468,098	\$ 218,594,136	\$ 185,164,575
<b>Revenues</b>					
Taxes	\$ 669,961,743	\$ 634,866,781	\$ 603,825,684	\$ 571,780,175	\$ 547,578,200
Licenses and Permits	9,157,112	9,263,690	8,961,449	8,107,374	7,394,636
Intergovernmental	8,113,172	7,653,676	8,050,536	8,070,603	8,303,590
Revenues from Utilities	389,318,709	363,611,917	345,666,381	348,996,708	348,480,225
Charges for Services	69,753,428	69,242,587	66,985,363	70,691,928	56,796,911
Fines and Forfeits	11,885,015	11,859,100	10,842,321	12,235,347	13,204,143
Interest Earned	20,323,034	1,678,213	918,975	525,292	-0-
Miscellaneous	4,421,229	15,078,999	18,245,645	10,789,957	12,881,244
Contributions <sup>2</sup>	81,316	2,079,066	185,809	185,807	-0-
<b>Total Revenues</b>	<b>\$ 1,183,014,758</b>	<b>\$ 1,115,334,029</b>	<b>\$ 1,063,682,163</b>	<b>\$ 1,031,383,191</b>	<b>\$ 994,638,949</b>
<b>Expenditures <sup>3</sup></b>					
General Government	\$ 82,358,979	\$ 80,187,342	\$ 73,481,144	\$ 74,075,071	\$ 70,165,457
Public Safety	750,394,002	730,008,072	711,887,131	693,368,377	664,256,910
Streets and Roadways	66,466,052	61,054,524	60,159,109	57,312,324	56,044,241
Health Services	28,592,314	26,489,180	25,177,332	23,425,651	22,694,725
Sanitation	-0-	-0-	-0-	-0-	-0-
Welfare	38,640,236	37,074,260	35,331,676	34,166,180	33,563,847
Culture and Recreation	123,453,891	118,899,311	111,398,141	88,568,432	85,459,552
Economic Dev. and Opportunity	23,487,022	19,595,681	16,802,350	27,044,437	16,031,415
Convention and Tourism	-0-	111,300	720,029	739,119	670,771
Urban Redevelopment and Housing	17,564,955	14,292,311	13,990,525	15,381,370	15,248,353
Debt Service	3,328,964	3,310,768	3,290,484	12,792,172	11,704,291
<b>Total Expenditures</b>	<b>\$ 1,134,286,415</b>	<b>\$ 1,091,022,749</b>	<b>\$ 1,052,237,921</b>	<b>\$ 1,026,873,133</b>	<b>\$ 975,839,562</b>
<b>Excess of Revenues Over Expenditures</b>	<b>\$ 48,728,343</b>	<b>\$ 24,311,280</b>	<b>\$ 11,444,242</b>	<b>\$ 4,510,058</b>	<b>\$ 18,799,387</b>
<b>Other Financing Sources (Uses)</b>					
Operating Transfers In	\$ 22,156,848	\$ 24,447,711	\$ 24,344,385	\$ 27,773,269	\$ 27,697,605
Operating Transfers Out	(98,112,671)	(80,414,534)	(73,480,220)	(48,920,565)	(49,033,077)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (75,955,823)</b>	<b>\$ (55,966,823)</b>	<b>\$ (49,135,835)</b>	<b>\$ (21,147,296)</b>	<b>\$ (21,335,472)</b>
Add Encumbrances <sup>3</sup>	93,218,808	60,694,970	49,333,018	41,511,200	35,965,646
<b>Fund Balance – End of Year</b>	<b>\$ 350,140,278</b>	<b>\$ 284,148,950</b>	<b>\$ 255,109,523</b>	<b>\$ 243,468,098</b>	<b>\$ 218,594,136</b>

<sup>1</sup> In FY 2014, GLs (for revenues) and business areas (for expenditures) were reclassified to be more in line with Adopted Budget categories.

<sup>2</sup> Beginning in FY 2015, contributions are reported separately from Intergovernmental Revenues.

<sup>3</sup> Expenditures are reported on a budgetary basis with encumbrances added back to arrive at a "Generally Accepted Accounting Principles" fund balance.

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## **General Fund Update**

The City's audited ending General Fund balance as presented in the City's Comprehensive Annual Report for fiscal year 2018 was \$350.1 million, which is \$66.0 million greater than the audited ending balance for fiscal year 2017. This increase is primarily due to increases in property tax assessments, revenue from utilities, and general sales and use taxes.

The 2019 adopted budget estimated an ending balance of \$303.9 million. Due to a better beginning balance and anticipated expenditure savings, the 2019 mid-year re-estimated end balance increased to \$318.6 million; representing an additional \$14.7 million.

## **Financial Management Policies Update**

With the adoption of the 2019 Budget, the City continues to follow established Financial Policies. These Financial Policies include a reserve policy to maintain a minimum General Fund ending balance of 15%, comprised of budgeted financial reserves of 10%, and a targeted reserve of 5% for a two year budget plan for the General Fund. Other requirements include an additional \$1 million contingency reserve in the General Fund and a \$3 million contingency reserve for the capital budget; maintain Public Safety below 66% of the General Fund; manage the structural balance in the General Fund; and address Internal Service Fund deficits within three to five years.

## **Internal Service Fund – Self Insurance**

The City manages the Insurance Reserve, Workers' Compensation, and Employee Benefits Funds as a single Self Insurance Program. The fiscal year 2018 undesignated fund balances for the City's Self Insurance Program were \$10.8 million for the Insurance Reserve Fund, \$23.3 million for the Workers' Compensation Fund and \$18.0 million for the Employee Benefits Fund.

## **Sales Taxation**

### ***Authority to Levy Sales Taxes***

*Municipal Sales and Use Tax.* Chapter 321 of the Texas Tax Code, as amended, authorizes the City to levy and collect a municipal sales and use tax on the receipts from the sale of taxable items within the City at a rate of 1%. The City has implemented multiple programs that are funded with various portions of this available municipal sales and use tax, which are described below. As a result, the current sales and use tax in the City is 8.25%, which is the maximum allowed by State law.

*Venue Projects.* The City Council designated an Edwards Aquifer Protection Venue Project ("Edwards Venue Project") and a Parks Development and Expansion Venue Project ("Parks Venue Project") under Chapter 334 of the Texas Local Government Code. The venue projects were presented separately to the voters at an election on the questions of implementing the Edwards and Parks Venue Projects, and imposing a 1/8 of 1% sales and use tax to finance the two venue projects.

At an election held on May 7, 2005, a majority of the voters authorized the implementation of both the Edwards Venue Project and the Parks Venue Project, as well as the imposition of a 1/8 of 1% sales and use tax to finance the venue projects.

The Edwards Venue Project provides for the protection of water quality in the Edwards Aquifer by establishing a watershed protection and preservation project to acquire and preserve land or interests in land in the Edwards Aquifer recharge and contributing zones both inside and outside Bexar County.

The Parks Venue Project provides for the planning, acquisition, establishment, development, construction, or renovation of the Parks Venue Project which includes the acquisition of open space and linear parks along Leon Creek, Salado Creek, Medina River, and San Antonio River, and for improvements and additions to the Municipal Parks and Recreation System.

The two venue projects share in the use of the 1/8 of 1% sales and use tax, for a total of \$90 million for the Edwards Venue Project and \$45 million for the Parks Venue Project. This sales and use tax took effect October 1, 2005, contributing to the City's current total sales and use tax rate of 8.25%.

On November 2, 2010, the City again presented to the voters the propositions of whether or not to establish an Edwards Aquifer Protection Venue Project and a Parks Development and Expansion Venue Project, and authorize the imposition of a sales and use tax at the rate of 1/8 of 1% for the purpose of financing the venue projects. A majority of the voters authorized the implementation of the venue projects as well as the imposition of the 1/8 of 1% sales and use tax receipts aggregating up to \$135 million to be used as follows: (1) \$90 million in connection with the Edwards Aquifer Protection Venue Project; and (2) \$45 million to be used in connection with the Parks Development and Expansion Venue Project.

As of July 2011, the City fully collected the sales and use tax authorized through the May 7, 2005 election for similar venue projects. Since that time, the City has imposed (and will continue to impose) the 1/8 of 1% sales and use tax approved by the voters in the November 2, 2010 election until the total sum of \$135 million was collected. Thus, this sales and use tax continued through April 2016.

On May 9, 2015, the City again presented to the voters the propositions of whether or not to establish an Edwards Aquifer Protection Venue Project and a Parks Development and Expansion Venue Project, and authorize the imposition of a sales and use tax at the rate of 1/8 of 1% for the purpose of financing the venue projects. A majority of the voters authorized the implementation of the venue projects as well as the imposition of the 1/8 of 1% sales and use tax receipts aggregating up to \$180 million to be used as follows: (1) \$100 million in connection with the Edwards Aquifer Protection Venue Project; and (2) \$80 million to be used in connection with the Parks Development and Expansion Venue Project. Collection of the 2015 sales and use tax commenced upon full collection of the 2010 sales and use tax, which, as stated above, was April 2016.

*Pre-K 4 SA Early Childhood Education Program.* On November 6, 2012, the City presented to the voters a proposition of whether or not to impose a sales and use tax at the rate of 1/8 of 1% for the purpose of funding up to four early childhood education centers of excellence and an early childhood education program. The tax revenue will be combined with State funds, allowing for full-day pre-kindergarten programs. The proposition was passed by a majority vote and the imposition of the additional 1/8 of 1% sales tax took effect April 1, 2013. This program will be up for potential renewal by City voters in November 2020.

### **Special Entities**

*Advanced Transportation District.* A proposition was passed at the November 2, 2004 election which allows VIA Metropolitan Transit, the mass transit agency serving the City, to create an Advanced Transportation District ("District") within the City and impose a 1/4 of 1% sales and use tax (the "ATD Tax"). The ATD Tax is allocated as follows: 50% for advanced transit services, operations, passenger amenities, equipment and other advanced transportation purposes; 25% to construct, improve and maintain streets and sidewalks and related infrastructure to improve mobility and other advanced transportation purposes in the District; and 25% as the local share to obtain State and federal grants for highways, transportation infrastructure designed to improve mobility and other advanced transportation purposes in the District.

*Alamo Regional Mobility Authority.* The Alamo Regional Mobility Authority (the "Alamo RMA") created pursuant to Chapter 370, Texas Transportation Code, as amended, provides the San Antonio area with the ability to construct, maintain, and operate certain transportation projects and establish a local governmental entity to make mobility decisions for this area. There is no sales tax associated with projects undertaken by the Alamo RMA.

The Alamo RMA is authorized to develop toll projects, issue revenue bonds to fund transportation projects, and utilize surplus revenues from local toll roads and State and federal assistance for transportation projects.

The Alamo RMA has been established to work in conjunction with the Texas Department of Transportation, the San Antonio-Bexar County Metropolitan Planning Organization, and other agencies to formulate a strategy to implement a toll network that will generate and direct revenue to other infrastructure projects that will improve the overall transportation system for the San Antonio metropolitan area.

## Collections and Equivalent Rates

Net sales tax collections and the equivalent ad valorem tax rates on a fiscal year basis are as follows:

### Municipal Sales Taxes

**Table 17**

Fiscal Year Ended 9/30	Sales Tax Collected (\$) <sup>1</sup>	Ad Valorem Tax Levy (\$) <sup>2</sup>	Percent of Ad Valorem Tax Levy (%)	Net Taxable Assessed Valuation (\$) <sup>3</sup>	Equivalent Tax Rate (\$)
2009	221,745,867	405,009,920	54.75	72,541,141,480	0.3057
2010	223,475,321	405,896,458	55.06	72,743,219,689	0.3072
2011	236,818,058	396,621,452	59.71	71,007,546,958	0.3335
2012	259,925,780	395,465,973	65.73	70,681,198,861	0.3677
2013	287,943,962	400,054,776	71.98	71,398,955,135	0.4033
2014	324,611,227	417,936,362	77.67	74,612,066,281	0.4351
2015	339,012,386	442,164,120	76.67	79,230,253,859	0.4279
2016	347,874,399	489,747,494	71.03	89,341,511,070	0.3894
2017	358,076,106	535,504,898	66.87	98,190,156,056	0.3647
2018	378,367,593 <sup>4</sup>	573,756,629 <sup>5</sup>	65.95	105,670,285,216	0.3581

<sup>1</sup> Includes the City's General Fund component of sales tax at the rate of 1%. Also includes 1/8 of 1% sales and use tax, authorized by voters in elections held on May 6, 2000, May 7, 2005, November 2, 2010, and May 9, 2015, respectively, to fund various venue projects, including park land acquisition and improvements over the Edwards Aquifer and linear parks along the Salado and Leon Creeks. Beginning in fiscal year 2005, also includes the Advanced Transportation District revenues received by the City from the 1/4 of 1% Advanced Transportation District sales tax levied within the City (of which the City receives 25% of such total taxes collected). On November 6, 2012, the City approved a 1/8 of 1% sales and use tax to fund two early childhood education centers of excellence and an early childhood education program within the City. The tax revenue will be combined with State funds, allowing for full-day pre-kindergarten programs. This sales and use tax increase brings the cumulative sales and use tax rate imposed and collected within the City by all governmental entities for all purposes at 8.25%, which is the maximum rate currently permitted under applicable State law.

<sup>2</sup> Total Ad Valorem Tax Levy for debt service and maintenance and operations.

<sup>3</sup> Based on Net Taxable Assessed Valuation certified by the Bexar Appraisal District.

<sup>4</sup> Of total taxes of \$669,961,743 deposited to the General Fund, as evidenced in Table 18, \$288,961,951 was derived from these Sales Tax collections imposed for general municipal purposes.

<sup>5</sup> Of total taxes of \$669,961,743 deposited to the General Fund, as evidenced in Table 18, \$339,887,236 was derived from these ad valorem tax collections levied for maintenance and operating purposes.

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# Comparison of Selected Sources of Revenues

Table 18

Fiscal Year Ended 9/30	Taxes <sup>1</sup>	Charges for Services	Miscellaneous	Fines and Forfeits	Licenses and Permits	Inter- Governmental	CPS Energy	San Antonio Water System (SAWS)	Contributions	Total
2009	\$ 477,114,895	\$ 42,799,773	\$ 13,657,600	\$ 13,110,500	\$ 7,089,526	\$ 6,029,919	\$ 265,459,226 <sup>2</sup>	\$ 10,146,195	\$ -0-	\$ 835,407,634
2010	479,774,856	45,850,142	12,099,140	11,506,403	7,769,156	7,767,630	283,502,448 <sup>3</sup>	9,223,627	-0-	857,493,402
2011	483,197,137	50,134,656	20,698,991	13,697,473	8,679,145	5,402,948	297,629,648 <sup>4</sup>	10,821,500	-0-	890,261,498
2012	500,678,710	47,960,498	19,350,606	14,401,007	8,469,233	7,996,874	288,096,190 <sup>5</sup>	11,210,108	-0-	898,163,226
2013	516,689,766	50,093,652	14,695,940	13,507,600	8,342,572	6,891,601	295,310,385 <sup>6</sup>	11,989,345	-0-	917,520,861
2014 <sup>7</sup>	547,578,200	56,796,911	12,881,244	13,204,143	7,394,636	8,303,590	335,932,050 <sup>8</sup>	12,548,175	-0-	994,638,949
2015	571,780,175	70,691,928	11,315,249	12,235,347	8,107,374	8,070,603	336,282,925 <sup>9</sup>	12,713,783	185,807 <sup>10</sup>	1,031,383,191
2016	603,825,684	66,985,363	19,164,620	10,842,321	8,961,449	8,050,536	331,846,513 <sup>11</sup>	13,819,868	185,809	1,063,682,163
2017	634,866,781	69,242,587	16,757,212	11,859,100	9,263,690	7,653,676	346,984,680 <sup>12</sup>	16,627,237	2,079,066	1,115,334,029
2018	669,961,743	69,753,428	24,744,263	11,885,015	9,157,112	8,113,172	371,136,348 <sup>13</sup>	18,182,361	81,316	1,183,014,758

<sup>1</sup> Comprised of property, sales, alcoholic beverage, business taxes, penalties, and interest and judgments; excludes hotel/motel occupancy tax.

<sup>2</sup> Includes an additional transfer of \$9,203,091 for deposit to the Community Infrastructure and Economic Development Fund ("CIED Fund"), a collaborative effort between CPS Energy and the cities and counties within its service area to enhance the aesthetic appeal of public areas by minimizing the visual impact of overhead electric facilities and to promote certain economic development and environmental stewardship/energy efficiency projects. The CIED Fund on a prospective basis was terminated on February 1, 2012 by action of the CPS Energy Board of Directors undertaken on January 30, 2012. However, the City will continue to receive an additional transfer that will be calculated in the same manner as the prior CIED Fund receipts.

<sup>3</sup> Includes an additional transfer of \$9,630,153 for the CIED Fund.

<sup>4</sup> Includes an additional transfer of \$10,053,786 for the CIED Fund.

<sup>5</sup> Includes an additional transfer of \$10,839,151 for the CIED Fund.

<sup>6</sup> Includes an additional transfer of \$10,865,595 for the CIED Fund.

<sup>7</sup> In FY 2014, revenues were reclassified to be more in line with Adopted Budget categories.

<sup>8</sup> Includes an additional transfer of \$11,090,885 for the CIED Fund.

<sup>9</sup> Includes an additional transfer of \$11,069,883 for the CIED Fund.

<sup>10</sup> Beginning in FY 2015, contributions are reported separately from Intergovernmental Revenues.

<sup>11</sup> Includes an additional transfer of \$11,601,014 for the CIED Fund.

<sup>12</sup> Includes an additional transfer of \$11,612,705 for the CIED Fund.

<sup>13</sup> Includes an additional transfer of \$11,719,596 for the CIED Fund.

**Expenditures for Selected Functions <sup>1</sup>**

**Table 19**

Fiscal Year Ended 9/30	General Government	Public Safety	Streets and Roadways	Health Services	Sanitation	Welfare	Culture and Recreation	Economic Development & Opportunity	Convention & Tourism	Urban Redevelopment & Housing	Debt Service	Transfers Out	Total
2009	\$ 77,659,285	\$486,694,550	\$ 12,088,398	\$ 65,494,020	\$ 3,131,583	\$ 40,543,992	\$ 75,582,098	\$ 3,011,010	\$ -0-	\$ -0-	\$ -0-	\$ 83,994,163	\$ 848,199,099
2010	81,117,340	501,629,528	42,517,625	73,343,125	3,138,080	38,452,697	73,884,389	2,607,476	-0-	-0-	-0-	54,253,833	870,944,093
2011	78,057,000	528,318,939	43,981,014	76,307,031	3,351,682	42,704,089	80,657,876	10,504,577	-0-	-0-	-0-	39,112,001	902,994,209
2012	87,997,608	538,313,780	39,744,666	78,136,020	3,310,971	40,153,187	82,740,560	15,184,974	-0-	-0-	-0-	47,640,012	933,221,778
2013 <sup>2</sup>	85,323,917	641,991,564	37,282,772	16,352,406	5,826,833	44,382,569	81,384,561	10,998,350	-0-	-0-	-0-	42,666,267	966,209,239
2014 <sup>3</sup>	65,818,122	663,164,319	52,077,775	22,472,241	-0-	31,505,631	83,524,370	12,946,993	668,994	14,824,412	11,704,291	30,199,845	988,906,993
2015	70,790,912	689,849,191	54,155,916	23,238,118	-0-	34,040,401	87,587,765	17,219,729	739,119	14,974,486	12,792,172	28,894,689	1,034,282,498
2016	70,385,186	710,239,805	55,628,948	24,908,759	-0-	35,181,929	106,639,378	8,215,312	720,029	13,833,440	3,290,484	47,341,853	1,076,385,123
2017 <sup>4</sup>	76,624,111	728,481,699	57,681,862	26,176,273	-0-	36,467,154	112,388,335	8,720,414	111,300	14,172,176	3,310,768	46,608,221	1,110,742,313
2018	76,686,621	747,731,140	61,512,906	28,172,417	-0-	37,978,705	115,681,206	8,730,778	-0-	17,265,488	3,328,964	42,092,053	1,139,180,278

<sup>1</sup> Expenditures for selected functions do not include non-debt related designations and encumbrances; such designations and encumbrances are included in subsequent year's budget.

<sup>2</sup> Expenditures for Public Safety increased and Health Services decreased due to re-categorizing EMS from Health Services to Public Safety.

<sup>3</sup> In FY 2014, business area expenditures were reclassified to be more in line with Adopted Budget categories.

<sup>4</sup> In FY 2017, the Official City Store transitioned from City of San Antonio to Visit San Antonio; this accounts for the decrease in Convention and Tourism.

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## **THE CITY**

### **Governmental Structure**

The City is a “Home Rule Municipality” that operates pursuant to the City Charter, which was adopted on October 2, 1951, became effective on January 1, 1952, and was last amended pursuant to an election held on November 6, 2018, whereby, subject only to the limitations imposed by the Texas Constitution, Texas Statutes, and the City Charter, all powers of the City are vested in an 11-member City Council which enacts legislation, adopts budgets, and determines policies. The City Charter provides for a Council-Manager form of government with ten council members elected from single-member districts, and the Mayor elected at-large, each serving two-year terms, limited to four full terms of office as required by the City Charter. The Office of the Mayor is considered a separate office. All members of the City Council stand for election at the same time in odd-numbered years. The City Council appoints a City Manager who administers the government of the City, and serves as the City’s chief administrative officer. The City Manager serves at the pleasure of City Council, limited to a term of eight years.

### **City Charter**

The City may amend its City Charter not more frequently than two full calendar years between amendments (and which amendments must be approved by popular vote). Since its adoption, the City Charter has been amended on ten (10) separate occasions including: November 1974, January 1977, May 1991, May 1997, November 2001, May 2004, November 2008, May 2012, May 2015, and November 2018. City Charter elections must be held on a uniform election date (occurring in May and November in each year).

City Charter amendments approved at an election held on November 6, 2018 eliminates the City Council’s authority to determine compensation and the term of the City Manager by limiting pay to 10 times the amount of the lowest paid city employee, limits the term of a City Manager to eight years, and requires a supermajority (8 votes out of 11) to select the City Manager. Additionally, the City Charter was amended at this election to allow Local 624 (defined herein) to unilaterally declare impasse in collective bargaining and to require binding arbitration upon the City.

### **Services**

The full range of services provided to its constituents by the City includes ongoing programs to provide health, welfare, art, cultural, and recreational services; maintenance and construction of streets, highways, drainage, and sanitation systems; public safety through police and fire protection; and urban redevelopment and housing. The City also considers the promotion of convention and tourism and participation in economic development programs high priorities. The funding sources from which these services and capital programs are provided include ad valorem, sales and use, and hotel occupancy tax receipts, grants, user fees, debt proceeds, tax increment financing, and other sources.

In addition to the above-described general government services, the City provides services financed by user fees set at levels adequate to provide coverage for operating expenses and the payment of outstanding debt. These services include airport and solid waste management.

Electric and gas services to the San Antonio area are provided by CPS Energy (“CPS”), an electric and gas utility owned by the City that maintains and operates certain utilities infrastructure. This infrastructure includes a 19 generating unit electric system and gas system that serves the San Antonio area. CPS’ operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. As specified in the City ordinances authorizing the issuance of its system debt, CPS is obligated to transfer a portion of its revenues to the City. CPS revenue transfers to the City for the City’s fiscal year ended September 30, 2018 were \$371,136,348. (See “Table 18 – Comparison of Selected Sources of Revenues” herein, “THE CITY – Certain Significant Issues Affecting the City” herein and “San Antonio Electric and Gas Systems” in APPENDIX A attached hereto.)

Water services to most of the City are provided by the San Antonio Water System (“SAWS”), San Antonio’s municipally-owned water supply, water delivery, and wastewater treatment utility. SAWS is in its 27th year of operation as a separate, consolidated entity. SAWS’ operating and debt service requirements for capital improvements are paid from revenues received from charges to its customers. SAWS is obligated to transfer a portion of its revenues to the City. SAWS revenue transfers to the City for the City’s fiscal year ended September

30, 2018 were \$18,182,361. (See “Table 18 – Comparison of Selected Sources of Revenues” herein, “THE CITY – Certain Significant Issues Affecting the City” herein and “San Antonio Water System” in APPENDIX A attached hereto.)

Please refer to Table 18 for historical transfers from CPS and SAWS to the City’s General Fund.

## **Economic Overview**

The City facilitates a favorable business environment that supports the creation of new jobs and brings new investment to the City. The business-friendly climate welcomes new company relocations, existing company expansions, and start-up ventures.

The Hut Group, a British e-commerce company that operates more than 100 international websites offering health, beauty, and lifestyle products, announced that it will build its North American headquarters in City Council District 1, after receiving City Council approval for a \$500,000 grant on June 21, 2018. The company plans to create 165 new full-time jobs over five years, all of which will pay over \$70,000 annually and include high skill and upper management positions.

Banking and insurance provider USAA, which has been headquartered in San Antonio since 1922, plans to invest \$70 million in real and personal property improvements to the company’s downtown properties in City Council District 1. On December 14, 2017, City Council approved a \$4 million forgivable loan to the military service provider for the creation of 1,500 new jobs over 5 years in the City’s downtown area, along with a 10-year, 100% tax abatement (capped at \$2 million). USAA will also expand the parking facilities at downtown locations and allow for public access during nights and weekends.

Founded in 2000 and headquartered in San Antonio, IPSecure provides a broad range of information technology services to government and private sector companies worldwide. The company focuses primarily on cybersecurity services, including defending against both outsider and insider threats, penetration testing, and exploitation services. On March 8, 2018, City Council approved a \$420,000 grant, based on a capital investment of \$1.3 million, creation of 80 new jobs, and retention of 115 existing jobs at Port San Antonio (located in City Council District 4) for 10 years.

San Antonio-based lending institution Credit Human plans to invest \$113 million to construct a new state-of-the-art corporate headquarters on the Broadway corridor in City Council District 1. The facility will seek a LEED Gold rating, making it one of the most sustainably built facilities of its kind in the nation. The new headquarters will bring 485 jobs to the City’s urban core. To secure this project, on October 19, 2017, City Council approved a 10-year, 100% tax abatement and a five-year tax rebate (capped at a combined total of \$5.9 million).

On November 9, 2017, City Council approved a six-year, 100% abatement of real and personal property taxes for accounting and consulting firm Ernst & Young (“EY”) in order to secure a new financial services office in San Antonio. EY plans to invest \$8.5 million at a new location in City Council District 8 while maintaining over 250 employees at its existing downtown office and creating 600 new jobs. Additionally, City Council awarded a grant of up to \$309,000 for the creation of high-wage jobs.

This “Big 4” accounting firm reinforced its commitment to San Antonio in 2018 when the company announced its plan to locate a consolidated operation of its Government and Public Sector Assurance division in City Council District 8. The project features an additional capital investment of \$5 million in real and personal property at Farinon Business Park and the creation of 300 new, high-wage jobs over five years. On September 6, 2018, City Council approved a grant of up to \$300,000 for each job to secure the project.

The San Antonio Economic Development Corporation (“SAEDC”) is a nonprofit corporation created in 2010 to assist the City in promoting economic development. Throughout 2017 and 2018, EDD and the SAEDC facilitated an ongoing working group of local military, academic, and private life science industry leaders to study and develop an action plan for greater commercialization of the military medical research missions in San Antonio. The final San Antonio Military Life Science Commercialization Action Plan (the “Action Plan”) and recommendation for a San Antonio Military Medical Innovation (“SAMMI”) Specialist were presented to the working group in July 2018. The targeted position and industry alliance will focus on increasing technology commercialization that arises from the innovative research being done at San Antonio’s local military missions, academic institutions, research

organizations, and government entities. In September 2018, the SAEDC board approved the agreement for implementation of Phase I of the Action Plan's recommendations and in April 2019 approved the creation of the SAMMI Specialist position.

In 2009, the City entered into a Public-Private Partnership with the San Antonio Economic Development Foundation ("SAEDF") to secure jobs in the targeted industries of bioscience and health, information technology and cybersecurity, new energy, advanced manufacturing, and aerospace. The partnership between EDD and SAEDF is based on recommendations of the Mayor's Corporate Retention and Recruitment Committee, which consisted of business and community members, and called for the development of a strategic plan, a process for coordination and collaboration to include a business retention and expansion program, and improved resource utilization. In 2015, a private sector sub-committee evaluated the five-year partnership between the City and SAEDF for years 2010-2015. The committee confirmed the continuation of the partnership as an effective model and provided formal recommendations to a City Council subcommittee. The results of the private sector committee recommendations led to the development of Forefront SA, the SAEDF led five-year economic development action plan. This collaborative partnership between the City and SAEDF secured 5,020 total new and/or retained jobs and a total of \$390 million in investments in FY 2018.

Two important anchor institutions for the City (Brooks and Port San Antonio) also saw major development within their respective spaces.

Port San Antonio (the "Port") is a logistics-based industrial platform on the former Kelly Air Force Base. It was created by the Texas Legislature in 2001 following the closure of the base and tasked with redeveloping and managing over 1,900 acres of property to ensure that it continues serving as an economic engine for the region. In May 2018, the first building in the Project Tech complex, a new facility specifically designed to meet the growing needs of local cybersecurity ecosystem, opened its doors. Project Tech will enable the expansion of cybersecurity operations and personnel while growing a campus environment that supports closer collaboration between high-ranking experts in cybersecurity and their technical counterparts in aviation, advanced manufacturing, and other targeted industries.

Recognized as one of the most innovative economic development projects in the United States, Brooks is a 1,200-acre campus with approximately 250 acres available for immediate development. In June 2018, Brooks began work on a 350,000-square foot light industrial facility to help attract developers of various goods. This new facility will help increase the appeal of Brooks as a hub for the advanced manufacturing industry, one of San Antonio's prominent target industries. In addition, as of August 2018, Brooks completed its first project as a San Antonio innovation zone, installing public Wi-Fi throughout its newly unveiled park, The Greenline. Brooks was selected as one of three initial innovation zones for San Antonio's Smart SA initiative and is serving as a proving ground for new and emerging technologies that may be implemented in other parts of the City or City-wide, if successful.

In 2011, CPS, the largest municipally owned, vertically integrated electric and gas utility in the United States, invested in 400 megawatts of solar energy through power purchase agreements and launched a New Energy Economy ("NEE") in the City. The NEE is comprised of local companies that share the City's vision for clean energy, innovation, and energy efficiency while leveraging economic development. Through this strategic approach, the City has spurred the creation of a solar manufacturing and clean energy technology hub. As a result, the NEE has led to more than \$1 billion in annual economic impact, over 600 jobs, and over \$200 million in capital investment, while contributing towards education locally.

To continue this effort, CPS launched EPIcenter in 2015, a hub for clean energy technology innovation, education and community engagement, and entrepreneurial incubation and ideation. The center will be a place where visionary entrepreneurs, technologists, and communities will come together to create a brighter energy future. This dynamic complex will set the bar for new and interactive forms of innovation and development in the new energy realm. In early 2018, EPIcenter announced the first two companies to join its new energy incubator, San Antonio-based Go Smart Solar and Morton Gestalt. In the last quarter of 2018, EPIcenter announced that Drones of Prey, an Austin-based startup, would also be joining the incubator, adding the first company not based in San Antonio to its ranks. The energy incubator is designed to help entrepreneurs build and develop innovative business ideas in the new energy industry.

For more information, see "Economic Factors" in APPENDIX A attached hereto.

## Employee Pension Plan and Benefits

The City's employees participate in a variety of defined pension plans. These plans and contributions made to such plans are further described in Note 9 in the City's Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended September 30, 2018, attached hereto as APPENDIX C. (See "CITY PENSION AND OTHER POSTEMPLOYMENT RETIREMENT BENEFIT LIABILITIES" herein.)

## Healthcare and Retirement Benefits Task Force

In the fall of 2013, the Mayor and City Council appointed a Healthcare and Retirement Benefits Task Force (the "Task Force"). The Task Force was charged with reviewing the cost of healthcare and pension expenses for uniform, civilian, and retired City employees and created as a proactive measure to review the City's programs and costs and provide recommendations on how to ensure the City maintains a strong financial position for the future. In February 2014, the Task Force made the following recommendations: establish policies and approve budgets that assure public safety expenses are managed in a balanced manner to General Fund revenues and expenditures; continue to study active compensation and retirement benefits; continue to study pre-funded healthcare for retirees including the exploration of bridge insurance options; review adjusting the uniform contribution levels and level of healthcare benefits to more closely align with civilians, other peer cities, and public and private employers in San Antonio; provide a vigorous wellness strategy for all City employees; negotiate uniform healthcare plan design and healthcare premiums as part of collective bargaining; continue annual analysis of stop-loss insurance; and implement regular dependent audits of all City employees.

## Employees

The following table shows the City's total full-time, part-time, and alternate employee positions authorized, and number of positions filled. The number of filled positions shown reflects employees on the payroll for the fiscal years indicated, and the number of employee authorized positions shown reflects positions adopted in the fiscal year budget.

	Fiscal Year Ended September 30									
	2018 <sup>3</sup>		2017 <sup>2</sup>		2016 <sup>1</sup>		2015		2014	
Employees	Filled	Authorized	Filled	Authorized	Filled	Authorized	Filled	Authorized	Filled	Authorized
Police	2,188	2,401	2,251	2,388	2,217	2,366	2,243	2,358	2,287	2,358
Police Grant Funded	44	44	19	19	19	15	15	17	17	17
Total Police <sup>1</sup>	2,232	2,445	2,270	2,407	2,236	2,381	2,258	2,375	2,304	2,375
Fire	1,744	1,757	1,717	1,714	1,651	1,714	1,625	1,663	1,645	1,663
Fire Grant Funded	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total Fire	1,744	1,757	1,717	1,714	1,651	1,714	1,625	1,663	1,645	1,663
Total Police & Fire	3,976	4,202	3,987	4,121	3,887	4,095	3,883	4,038	3,949	4,038
Civilian	6,386	7,021	6,470	6,994	6,279	6,847	6,245	6,769	6,036	6,737
Civilian Grant Funded	558	626	510	598	495	573	469	550	450	551
Pre-K 4 SA	394	416	450	463	442	407	391	380	353	209
Total Civilian	7,338	8,063	7,430	8,055	7,216	7,827	7,105	7,699	6,839	7,497
Total	11,314	12,265	11,417	12,176	11,103	11,922	10,988	11,737	10,788	11,535

Note: The adopted budget for FY 2014 reduced the total number of positions by 29. This decrease is the net effect of adopted improvements, mandates, reductions/redirections, mid-year adjustments, and baseline changes.

<sup>1</sup> The FY 2016 Adopted budget was amended on October 15, 2016 and increased the total number of civilian positions by 11 and increased the total number of police positions by 4.

<sup>2</sup> In FY 2017, the mid-year ordinance, adopted by City Council May 11, 2017 reallocated \$1 million for the 2017 COPS Cash match for 15 new police officers funded in the General Fund as the 2017 COPS Grant was not awarded to the City

<sup>3</sup> The FY 2018 Adopted budget added 42 new police officer positions to include 25 new officers through COPS Grant, 8 SAFFE officers, 3 new officers for annexation areas, 4 Park Police for security at Linear Creekways and 2 Airport police funded from Airport fund. In FY 2018, through City Council Adopted Ordinances added, 2 Police Sergeants, 3 Park Police Officers, 1 Position for the First Amendment Ordinance, 1 Additional Position for Pre-K4SA and grant positions.

## **Financial Accounting and Financial Policies**

### ***Basic Financial Statements***

The basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial statements report information on all non-fiduciary activities of the primary government and its component units. The Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities. Additionally, the effect of interfund activity has been removed from the statements.

The Statement of Net Position reflects both short-term and long-term assets and liabilities, as well as deferred inflows and outflows of resources. In the government-wide Statement of Net Position, governmental activities are reported separately from business-type activities. Governmental activities are supported by taxes and intergovernmental revenues, whereas business-type activities are normally supported by user fees and charges for services. Long-term assets, such as capital assets, long-term obligations, such as debt, and any deferred inflows and outflows, are now reported in the governmental activities. The components of Net Position are presented in three separate categories: (1) net investment in capital assets, (2) restricted, and (3) unrestricted. Interfund receivables and payables within governmental and business-type activities have been eliminated in the government-wide Statement of Net Position, which minimizes the duplication within the governmental and business-type activities. The net amount of interfund transfers between governmental, proprietary and fiduciary funds is the balance reported in the Statement of Net Position. Discretely presented component units are also reported in the Statement of Net Position.

The Statement of Activities reflects both the gross and net cost format. The net cost (by function or business-type activity) is usually covered by general revenues (property tax, sales and use tax, revenues from utilities, etc.). Direct (gross) expenses of a given function or segment are offset by charges for services, operating and capital grants, and contributions. Program revenues must be directly associated with the function of program activity. The presentation allows users to determine which functions are self-supporting and which rely on the tax base in order to complete their mission. Internal Service Fund balances, whether positive or negative, have been eliminated against the expenses and program revenues shown in the governmental and business-type activities of the Statement of Activities.

A reconciliation detailing the change in net position between the government-wide financial statements and the fund financial statements is presented separately for governmental funds. In order to achieve a break-even result in the Internal Service Fund activity, differences in the basis of accounting and reclassifications are allocated back to user departments. These allocations are reflected in the government-wide statements. Any residual amounts of the Internal Service Funds are reported in the governmental activity column.

The proprietary funds have a reconciliation presented in the proprietary funds' Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position related to the Internal Service Fund allocation.

### ***Fund Accounting***

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets and other debits, liabilities, fund balances and other credits, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the proceeds of revenue sources, those proceeds' restrictions or commitments for which they are to be spent and the means by which spending activities are controlled. The City has three types of funds: governmental, proprietary, and fiduciary. The fund financial statements provide more detailed information about the City's most significant funds, but not on the City as a whole. Major governmental and enterprise funds are reported separately in the fund financial statements. Nonmajor funds are aggregated in the fund financial statements and independently presented in the combining statements.

The criteria used to determine if a governmental or enterprise fund should be reported as a major fund are as follows: the total assets and deferred outflows of resources, the total liabilities and deferred inflows of resources, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding element total for all funds of that category or type (that is, total governmental or total enterprise

funds), and the same element that met the 10% criterion above in the governmental or enterprise fund is at least 5% of the corresponding element total for all governmental and enterprise funds combined.

### ***Governmental Funds***

*General Fund* is the primary operating fund for the City, which accounts for and reports all financial resources of the general government not accounted for and reported in another fund.

*Special Revenue Funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service and capital projects. The specific revenue sources are the foundation for the fund's designation and should be expected to continue to comprise a substantial portion of the inflows reported in the fund. If the fund no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources, the funds' remaining resources and activities should be reported in the General Fund.

*Debt Service Funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest as well as financial resources that are being accumulated for principal and interest maturing in future years.

*Capital Projects Funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets, except those financed by enterprise funds and trust funds.

*Permanent Funds* are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs, that is, for the benefit of the government or its citizenry.

### ***Proprietary Funds***

*Enterprise Funds* are used to account for and report operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the expenses (including depreciation) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges.

*Internal Service Funds* are used to account for and report the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis. The City's self-insurance programs, data processing programs, other internal service programs, and Capital Management Services are accounted for in these funds.

### ***Fiduciary Funds***

*Trust and Agency Funds* are used to account for and report assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governmental units. These include the Pension Fund and Health Fund, which account for resources for pension and retiree health care benefits for the City's firefighters and police officers. The Private Purpose Trust Fund includes reporting on funds restricted for the City's literacy programs. The Agency Funds account for the City's sales and use tax to be remitted to the State of Texas, various fees for other governmental entities, unclaimed property, and various deposits held. The Pension Fund, Health Fund, and the Private Purpose Trust Fund are accounted for in essentially the same manner as proprietary funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

### **Fiscal Year 2018 Management Letter**

The City did not receive a 2018 Report on Internal Controls due to there being no findings.

## **Information Regarding GASB Statements for Pension/Retirement Program**

In FY 2014, the City implemented GASB Statement No. 67, Financial Reporting for Pension Plans (an amendment of GASB Statement No. 25). GASB 67 has improved financial reporting by state and local governmental pension plans that are administered through trusts or equivalent arrangements.

In FY 2015, the City implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date (an amendment to GASB Statement No. 68) that established accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of the Statement.

In FY 2018, the City implemented GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The principal objective of the Statement is to improve the usefulness of information about other postemployment benefits (“OPEB”) plans included in the general purpose external financial reports of state and local governmental benefit plans for making decisions and assessing accountability.

Additionally, in FY 2018, the City implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The primary objective of the Statement is to improve accounting and financial reporting by state and local governments for OPEB.

## **Debt Management**

The City issues debt for the purpose of financing long-term infrastructure capital improvements and short-term projects. Some of these projects have multiple sources of funding which include debt financing. Infrastructure, as referred to by the City, means economic externalities essentially required to be provided by government to support a community’s basic human needs, economic activity, safety, education, and quality of life. Types of debt issued by the City include ad valorem tax-supported bonds, tax notes, public property finance contractual obligations, combination tax and revenue certificates of obligation, revenue bonds, and revenue notes. Tax notes and combination tax and revenue certificates of obligation are typically secured by a pledge of revenues and/or ad valorem taxes, do not require voter approval, and are issued for programs that support the City’s major infrastructure facilities and certain of its revenue-producing facilities. Revenue bonds are utilized to finance long-term capital improvements for proprietary enterprise and self-supporting operations. Currently, revenue bonds provide the financing required for improvements to the City’s Airport System and the City’s Municipal Drainage Utility System (“Stormwater System”).

The long-term infrastructure financing process commences with the identification of major projects throughout the City to be financed with debt. These City-wide projects typically involve health and public safety, street improvements, drainage, flood control, construction and improvements to municipal facilities, as well as quality of life enhancements related to libraries and municipal parks. Major projects that are financed with ad valorem tax-supported bonds are presented to the electorate for approval. Upon voter approval, the City is authorized to issue ad valorem tax-supported bonds to finance the approved projects. Bond elections are held as the needs of the community are ascertained. The short-term financing process includes interim financing and various projects. Revenue bonds do not require an election and are sold as needed for construction, expansion, and/or renovation of facilities in amounts that are in compliance with revenue bond covenants. The process for any debt issuance begins with the budget process and planned improvements to be made during the ensuing fiscal year.

Utilization of comprehensive financial analysis and computer modeling in the City’s ad valorem Debt Management Plan incorporates numerous variables such as sensitivity to interest rates, changes in assessed values, annexations, current ad valorem tax collection rates, self-supporting debt, and fund balances. The analytical modeling and effective debt management has enabled the City to maximize efficiencies through refundings and debt structuring. Strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time maintaining its strong ratings. The City is rated “AAA” by S&P Global Ratings (“S&P”), “Aaa” by Moody’s Investors Service, Inc. (“Moody’s”), and “AA+” by Fitch Ratings, Inc. (“Fitch”). The City’s credit has been rated “AAA” by S&P since October 2008; recalibration of their respective rating scales by Moody’s and Fitch in 2010 resulted in rating changes from each of those rating agencies, upgrading the City’s credit to “Aaa” and “AAA”, respectively. Most recently, on December 19, 2018, Fitch downgraded the City’s credit rating to “AA+”. (See “RATINGS” herein.)

## **Debt Authorization**

### ***General Obligation Bonds***

The City is authorized to issue bonds payable from ad valorem taxes pursuant to the City Charter, the general laws of the State, and ordinances adopted by the City Council. Such bonds must be authorized by the voters of the City at elections held within the City. The City had \$850,000,000 ad valorem tax-supported debt approved by its voters on May 6, 2017. See “Table 12 – Authorized but Unissued Ad Valorem Tax Debt” herein. For the fiscal year ended September 30, 2018, the City had \$1,314,015,000 general obligation bonds outstanding, which amount does not include the 2019 Bonds but includes the Refunded Obligations.

### ***Tax Notes***

The City is authorized to issue short-term tax notes, having a maturity not exceeding seven years, pursuant to the general laws of the State and ordinances authorized by the City Council and are payable from ad valorem taxes. For the fiscal year ended September 30, 2018, the City had \$89,655,000 tax notes outstanding, which amount does not include the 2019 Notes.

### ***Certificates of Obligation***

The City is authorized to issue certificates of obligation pursuant to the City Charter, applicable State laws, and ordinances adopted by the City Council. Certificates of obligation are issued for various purposes to include financing revenue-producing capital improvements and for infrastructure support and development. For the fiscal year ended September 30, 2018, the City had \$511,485,000 certificates of obligation outstanding, which comprise 26.71% of the total outstanding ad valorem tax-supported debt, and which amount does not include the 2019 Certificates.

### ***Revenue Bonds***

The City is authorized to issue revenue bonds under the provisions of the City Charter, applicable State laws, and ordinances adopted by City Council. For fiscal year ended September 30, 2018, the City’s outstanding revenue bonds were: Airport System Revenue Bonds in the aggregate principal amount of \$185,060,000; Customer Facility Charge Revenue Bonds in the aggregate principal amount of \$123,900,000; Passenger Facility Charge and Subordinate Lien Airport System Revenue Bonds in the aggregate principal amount of \$125,265,000; and Municipal Drainage Utility System Bonds in the aggregate principal amount of \$56,875,000. This excludes revenue bonds issued by the City for the benefit of SAWS and CPS, respectively.

The airport and stormwater revenue bonds are not secured by ad valorem taxes and are limited obligations of the City payable solely from the revenues of the airport system and stormwater system, respectively. The Customer Facility Charge Revenue Bonds are not secured by ad valorem taxes and are payable solely from the revenues generated by the City’s collection of a customer facility charge, which was approved by the City Council, with collection beginning on April 1, 2012. The Passenger Facility Charge revenue bonds are not secured by ad valorem taxes and are payable solely from the revenues generated by the City’s collection of a passenger facility charge, which was approved by the Federal Aviation Administration (“FAA”) and the City Council, with collection beginning on November 21, 2001.

### ***Revenue Obligations***

The City is authorized to issue revenue notes under the provisions of the City Charter, applicable State laws, and ordinances adopted by City Council. The revenue notes are not secured by ad valorem taxes and are limited obligations of the City, payable solely from any lawfully available revenues generated by the City and subject to annual appropriation by the City Council. For the fiscal year ended September 30, 2018, the City had \$6,575,000 revenue notes outstanding.

### ***Loan Agreements***

In addition to the foregoing, the City has, in connection with its acquisition of a downtown office building to consolidate its administration, entered into a loan agreement with a private bank pursuant to which the City obtained



a loan in the amount of \$6,100,000 to pay a portion of the costs of this acquisition (the balance of which costs were financed by the City through the issuance of its Variable Rate Combination Tax and Revenue Certificates of Obligation, Series 2016). This \$6,100,000 loan matures on August 1, 2020, does not amortize principal prior thereto, and is secured by and payable from lawfully available City revenues (excluding the City's collection of ad valorem taxes).

### ***Airport Tax Notes***

On September 21, 2017, the City approved a \$100,000,000 authorization in taxable tax notes to serve as interim financing for Airport capital improvements to be issued and delivered in installments as funds are required. On November 14, 2017, the City engaged in a private placement of \$36,000,000 City of San Antonio, Texas Tax Notes, Taxable Series 2017 (the "Tax Notes") representing the first draw. The Tax Notes are backed by ad valorem taxes and paid with Airport revenues. The Tax Notes are planned to be refunded with Airport Revenue Bonds once the Airport Master Plan and financing plan are developed and finalized.

### ***Refundings***

The City routinely reviews the possibility of refunding certain of its outstanding debt to effectuate interest cost savings. The refunding component of the 2019 Bonds represents an issuance of obligations resulting from this process.

### ***Debt Limitations***

The amount of ad valorem tax-supported debt that the City may incur is limited by City Charter and by the Constitution of the State. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10% of the total assessed valuation.

The State Constitution and the City Charter provide that the ad valorem taxes levied by the City for general purposes and for the purpose of paying the principal of and interest on the City's indebtedness must not exceed \$2.50 for each \$100 of assessed valuation of taxable property. There is no constitutional or statutory limitation within the \$2.50 rate for interest and sinking fund purposes; however, the Texas Attorney General has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from \$1.50 of the foregoing \$2.50 maximum tax rate calculated at 90% collections. In addition, Section 1331.051, Texas Government Code, as amended, and the City Charter prohibit the total debt of the City from exceeding 10% of the total assessed valuation of property shown by the last assessment roll, and the City Charter excludes (1) any indebtedness secured in whole or in part by special assessments, (2) the debt of any improvement district, and (3) any indebtedness secured by revenues, other than taxes of the City or of any department or agency thereof. The issuance of the 2019 Obligations does not result in the City's violation of these provisions. (See "DEBT AND TAX RATE LIMITATIONS" herein.)

### ***Long-Term Debt Planning***

The City employs a comprehensive multi-year, long-term capital improvement planning program that is updated annually. Debt management is a major component of the financial planning model which incorporates projected financing needs for infrastructure development that is consistent with the City's growth while at the same time measuring and assessing the cost and timing of each debt issuance.

The assumptions in the FY 2018-2019 Debt Management Plan include: (i) assessed valuation growth at 7.73% in fiscal year 2018, a projected growth rate of 8.39% in fiscal year 2019, 4.00% in fiscal year 2020, 3.00% in fiscal year 2021, and held constant thereafter; (ii) tax collections at 98.00%; (iii) tax freeze for elderly and disabled; (iv) the adopted debt service tax rate which remains constant at 21.15 cents through fiscal year 2032; and (v) authorizations in 2022 of \$925,000,000 and \$925,000,000 in 2027.

### ***New Money Issues***

Ongoing capital improvement needs have required the City to sell certificates of obligation and general obligation bonds to fund capital improvements for various streets, drainage and flood control projects; acquisition, construction and improvements related to park facilities, public safety, municipal facilities and parking structures; and

environmental clean-up and land acquisition. Tax notes have been utilized to fund short-term projects and interim financing of seven years or less.

A portion of the 2019 Bonds will be sold to finance improvements to streets, bridges, and sidewalks; drainage and flood control; parks, recreation, and open spaces; library and cultural facilities; public safety facilities; and neighborhood initiatives. The FY 2019-2020 Debt Management Plan also includes the proposed sale of certificates of obligation and tax notes. The certificates are anticipated to be sold to fund municipal facilities, streets, public safety and information technology, parks, recreation and cultural facilities, sidewalks, and pedestrian mobility enhancement, and public works, and the tax notes are anticipated to be sold to fund street improvements and information technology. These issuances are represented by the 2019 Certificates and the 2019 Notes.

### **Debt Service Tax Rate**

The combination of successful refundings and low interest rates for bonds and certificates of obligation sales occurring between fiscal years 1992 and 2018 has resulted in a decrease in the projected maximum debt service tax rate of \$0.3049 per \$100 valuation prior to fiscal year 1992 to a projected maximum debt service tax rate of \$0.2115 per \$100 through fiscal year 2032.

### **The Budget Process**

#### ***Fiscal Year 2020 Budget***

The FY 2020 Budget Process represents a comprehensive effort that involves input from residents, the Mayor and City Council, outside governmental agencies and private organizations, all City departments and offices, and City employees. There are several major components to the process and each phase of the FY 2020 Budget Process is explained below.

*Five-Year Financial Forecast.* The Budget Process is guided with the development and presentation of the Five-Year Financial Forecast (the “Forecast”). The Forecast is a financial and budgetary planning tool that provides a current and long-range assessment of financial conditions and costs for City service delivery plans including the identification of service delivery policy issues that will be encountered in the next five years and will have a fiscal impact upon the City’s program of services. The Forecast also examines the local and national economic conditions that have an impact on the City’s economy and ultimately, its budget. The Forecast is intended to provide the City Council and the community with an early financial outlook for the City, and to identify significant issues that need to be addressed in the budget development process. Future revenues and expenditures are taken into account in an effort to determine the level of surplus or deficit the City may face during the next five years. On May 8, 2019, the Forecast was presented to the City Council.

*Public and Employee Input.* The City’s budget is a reflection of the community’s priorities. In a coordinated effort to reach and receive feedback from residents, the City conducts a comprehensive community input campaign to ask the community for their budget priorities for the upcoming year. In March, prior to the development of the City’s annual budget, the City initiated its SASpeakUp campaign to ask residents for their service priorities. The SASpeakUp campaign is unique in that the City gathers feedback by going to “where the residents are,” whether online, at community events, or at City facilities in the neighborhood. Through this campaign, the City reaches out to the community through a multi-faceted campaign to collect data on residents’ use of City services and their ideas for spending in the upcoming year. Community input is gathered through the SASpeakUp bilingual (English and Spanish) street teams that attend events throughout the community to capture feedback, through digital media, email blasts, and an online survey. Additionally, the Budget Input Box is available for residents to provide suggestions on how the City may become more efficient, generate revenues, and make effective changes to service delivery. The Budget Input Box is available online and at various public libraries, City office lobbies, and other venues. Information across all feedback mediums are offered in both English and Spanish. All feedback collected through the SASpeakUp campaign and the Budget Input Boxes will be compiled and used in preparing the FY 2020 Budget recommendations.

*City Council Goal Setting Work Session.* The Goal Setting Work Session for the annual budget is a formal mechanism for City Council as a body to provide policy direction to City staff on budget priorities for the upcoming fiscal year. This work is focused on establishing strategic goals and service delivery priorities to lead the City’s

efforts and resources for the FY 2020 and FY 2021 Budget development. The outcome of the Goal Setting Work Session guides City staff to align service delivery and spending plans with the City Council priorities.

*Proposed Budget Preparation.* Prior to the Proposed Budget Presentation, each City department's base budget is reviewed by the Office of Management and Budget, along with the City department's respective Executive Leadership Team member. Costs such as fuel, electricity, and other similar maintenance and operational expenses may be adjusted to meet current market demands. Concurrent to these reviews, the Executive Leadership Team and Budget Staff review preliminary fund schedules in order to determine the financial position for each City department and fund. Other items discussed in these meetings include performance measures, capital and grant programs, policy issues, revenue changes, and potential reductions. As part of the Budget Development Process, City departments will be asked to look for efficiency and operational proposals that reflect the City Council strategic goals and the community service delivery priorities.

*FY 2020 Proposed Budget.* After obtaining the priorities of the community and City Council, as well as conducting reviews of each City department, the City Manager will present the FY 2020 Proposed Operating and Capital Budget to City Council on August 8, 2019.

*Public Input on Budget Priorities.* Community input is an important part of the budget process. The SASpeakUp campaign and the Budget Input Box will connect residents to information regarding the FY 2020 Proposed Budget. After the budget is presented to the City Council in early August, the City conducts a series of budget open houses in English and Spanish across the City, as well as two public hearings at City Council Chambers to obtain input from the community on the proposed budget. These meetings are in addition to the social media opportunities that are available to the residents to provide their input about the proposed budget. All community feedback gained from these initiatives will be provided to City Council and City staff for consideration in the FY 2020 Proposed Budget. The FY 2020 Proposed Budget will represent City staff's professional recommendation reflecting the priorities of the community and City Council.

*FY 2020 Adopted Budget.* After receipt of the FY 2020 Proposed Budget, the City Council will hold several work sessions to review the proposed service program details, and discuss potential City Council budget amendments. The budget work sessions provide a forum for discourse on significant policy issues as well as an opportunity to review departmental service plans highlighting proposed program enhancements, efficiencies, redirections, and revenue adjustments. After considering all the recommendations and receiving input from citizens, the budget will be presented to City Council for adoption on September 12, 2019.

## **Annexation Process**

Through full-purpose, limited-purpose, and annexations requested by property owner (commonly referred to as voluntary annexations), the City of San Antonio has grown from its original area of 36 square miles in the 1940s to its current size of approximately 514.5 square miles. San Antonio had a net taxable assessed value of \$114.7 billion in tax year 2018.

As allowed by recent changes in the State annexation law, the City Council ordered a special annexation election on November 6, 2018 for two areas within five miles of the boundary of the Camp Bullis and Camp Stanley military bases (22.39 square miles) and the Lackland Air Force Base and Medina Training Annex (20.27 square miles), in order to protect the missions of military installations within San Antonio's Extraterritorial Jurisdiction ("ETJ"). Both measures were defeated at this election. As a result, these areas will remain within the City's ETJ outside of the City limits and will be regulated per land use according to the most recent military joint land use study. Since the election, the City has developed military protection area land use regulations and will consider their adoption on June 20, 2019.

During the 2019 fiscal year, three voluntary annexations, totaling 252.2 acres, were completed. Two additional voluntary annexations were completed on June 20, 2019, which added 274.665 acres to the City limits, totaling approximately 515 square miles, which will be effective on July 1, 2019.

In March 2017, the Cities of San Antonio and Converse mutually approved an interlocal agreement that would culminate with the annexation by Converse of approximately 12 square miles of ETJ released by San Antonio and a transfer to Converse of approximately 3.6 square miles of San Antonio's corporate area through boundary adjustments, over the course of 17 years. The first phase of the program was completed. However, the newly passed

annexation law affects the terms of the agreement; hence the entire agreement is being reviewed and will be renegotiated in the future.

Currently, the City is in the process of updating its Annexation and Growth Policy which will provide new growth management strategies and evaluation criteria to manage growth and development issues within its ETJ. These policies will conform to newly passed Tier 2 annexation provisions and the goals of the City's SA Tomorrow Comprehensive Plan.

### **Public Improvement District**

Pursuant to the Public Improvement District Assessment Act, Chapter 372, Texas Local Government Code, the City Council created a public improvement district ("Downtown PID") in the central business district in 1999. In May 2013, the City Council reauthorized the Downtown PID for a ten-year term beginning October 1, 2013 through September 30, 2023. The purpose of the Downtown PID is to provide public improvement services to properties within the boundaries of the Downtown PID to include: (1) management services; (2) maintenance and landscaping/streetscaping services; (3) a marketing and promotional program; (4) a public service representative program; (5) a business retention and recruitment program; and (6) capital projects. On July 1, 1999, the City Council authorized the City to execute a management contract with Centro San Antonio Management Corporation, a non-profit Texas corporation, to manage the Downtown PID programs. The current management contract is with the Centro Public Improvement District, a Texas non-profit corporation (formerly the Centro San Antonio Management Corporation) and extends through September 30, 2023. A 15-member Board of Directors of the Centro Public Improvement District meets at least quarterly to assure performance of the Centro Public Improvement District. The supplemental services and improvements to be provided are detailed in the annual Service and Assessment Plan, which must be approved by the City Council. The FY 2019 plan reflects a total budget of \$5,284,000 based on the assessment rate of \$0.15 for commercial properties and \$0.09 per \$100 valuation for condominium residential properties. In addition to assessment revenues from private property, estimated additional funds are to be received from annual contributions from the City, CPS, VIA Metropolitan Transit, Bexar County and other revenue sources for a total amount of \$608,000, from Christus Santa Rosa Health System of \$150,000, and from interest on deposits of \$20,000. Centro Public Improvement District will operate on these collected revenues and will not issue bonds.

Management services are provided to Centro Public Improvement District (and Centro Alliance, an advocacy group comprised of over 600 members working in service of downtown San Antonio) by Centro Partnership San Antonio, a Texas nonprofit corporation doing business as Centro San Antonio. Most recently, Centro San Antonio named Matt Brown, former Director of Economic Development for the City of Santa Fe, New Mexico, as CEO effective June 17, 2019.

Visit San Antonio ("VSA") is tasked with the sales, marketing, and promotion of the City to convention, group, and leisure visitors. VSA acted as a City department through September 2016. Beginning in October 2016, City Council approved its transition to a 501(c)(6) public/private entity. One of the key charges for that transition was to allow VSA to explore additional funding opportunities and the ability to expand sales and marketing initiatives and partnerships.

On June 21, 2018, City Council authorized by ordinance various agreements related to the proposed creation of the San Antonio Tourism Public Improvement District ("SATPID") and approved the SATPID Service Plan, which included the Assessment Plan. That ordinance authorized a contract which provides that the SATPID will be overseen by the San Antonio Tourism Public Improvement District Corporation, a non-profit entity with a Board of Directors composed solely of stakeholder hotels within the SATPID.

On October 24, 2018, the San Antonio Hotel Lodging Association ("SAHLA") presented the City with a petition which included the signatures of property owners representing 74.24% of appraised value of the real property and 64.52% of the record owners of hotels with 100 rooms or more, ordinarily used for sleeping, located within the SATPID. The Office of the City Clerk verified the petition, as required by State law on December 6, 2018. On December 6, 2018, City Council by ordinance authorized the creation of the SATPID, designed to protect and grow the City's \$13.6 billion visitor industry and its associated market share. The ordinance specifies the nature and cost of proposed improvements within the SATPID Service Plan, sets forth the SATPID's boundaries, specifies the method of assessment, provides for the apportionment of costs between the City and the SATPID, levies an assessment rate of 1.25% of the gross hotel room night revenue of qualified hotels within the SATPID beginning on

January 1, 2019. It is estimated that the SATPID will generate more than \$10 million annually for direct investment into sales, marketing, and promotional efforts to boost tourism, leisure, and corporate business travel, and convention and group business to the City. As a result, it is also expected to increase City sales tax, alcoholic beverage tax, and property tax receipts due to the enhanced economic activity. There are no additional costs to the City. Any administrative costs incurred by the City for the collection and disbursement of the assessment fees will be reimbursed to the City from such assessment fees.

## **Investments**

Available investable funds of the City are invested as authorized and required by the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "Investment Act"), and in accordance with an Investment Policy approved by the City Council. The Investment Act requires that the City establish an investment policy to ensure that City funds are invested only in accordance with State law. The City has established a written investment policy, which was most recently amended and adopted on September 20, 2018. The City's investments are managed by the City's Department of Finance, which, in accordance with the Investment Policy, reports investment activity to the City Council.

## **Legal Investments**

Under State law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or otherwise meeting the requirements of the Investment Act; (8) certificates of deposit and share certificates that (i) are issued by or through an institution that has its main office or a branch in the State and (a) are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, (b) are secured as to principal by obligations described in clauses (1) through (7) above, or (c) secured in any other manner and amount provided by law for City deposits, or (ii) certificates of deposit where (a) the funds are invested by the City through a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law, or a depository institution that has its main office or a branch office in the State that is selected by the City, (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the City with respect to the certificates of deposit issued for the account of the City; (9) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clause (1), (iii) require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) 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 (7) 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 (7) above and clauses (12) through (15) below, (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City, (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing

business in the State, and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances if the bankers' acceptance (i) has a stated maturity of 270 days or fewer from the date of issuance, (ii) will be, in accordance with its terms, liquidated in full at maturity, (iii) is eligible for collateral for borrowing from a Federal Reserve Bank, and (iv) is accepted by a State or Federal bank, if the short-term obligations of the accepting bank or its holding company (if the accepting bank is the largest subsidiary) are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with (i) a stated maturity of 270 days or less from the date of issuance, and (iii) a rating of 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; (13) no-load money market mutual funds that are (i) registered with and regulated by the United States Securities and Exchange Commission, (ii) provide the City with a prospectus and other information required by the Securities and Exchange Act of 1934; and (iii) comply with Federal Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are (i) registered with the United States Securities and Exchange Commission, (ii) have an average weighted maturity of less than two years, and (iii) either (a) have a duration of one year or more and are invested exclusively in obligations described in this paragraph, or (b) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; (15) investment pools if the City has authorized investment in the particular pool and the pool invests solely in investments permitted by the Investment Act, and is continuously rated no lower than "AAA" or "AAA-m" or at an equivalent rating by at least one nationally recognized rating service; and (16) guaranteed investment contracts that (i) have a defined termination date, (ii) are secured by obligations which meet the requirements of the Investment Act in an amount at least equal to the amount of bond proceeds invested under such contract, and (iii) are pledged to the City and deposited with the City or with a third party selected and approved by the City.

The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

### **Investment Policies**

Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, requirements 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 Texas Public Funds Investment Act. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type; (2) preservation and safety of principal; (3) liquidity; (4) marketability of each investment; (5) diversification of the portfolio; and (6) yield.

State law requires the City's investments 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 must submit an investment report to the City Council detailing: (1) the investment position of the City; (2) that all investment officers jointly prepared and signed the report; (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group; (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period; (5) the maturity date of each separately invested asset; (6) the account or fund or pooled fund

group for which each individual investment was acquired; and (7) the compliance of the investment portfolio as it relates to: (a) the investment strategy expressed in the City's investment policy, and (b) the Investment Act. No person may invest City funds without express written authority from the City Council.

### **Additional Provisions**

The City is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt an 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 said 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, (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, requires an interpretation of subjective investment standards, or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), 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, or other investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in no-load mutual funds to no more than 15% of the entity'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.

### **Current Investments**

As of March 31, 2019, investable City funds (unaudited) in the approximate amount of \$1,801,439,118.61 were 90.81% invested in obligations of the United States, or its agencies and instrumentalities, 4.80% invested in a money market mutual fund, 4.33% invested in local government investment pools, and 0.06% in a collateralized repurchase agreement, with the weighted average maturity of the portfolio being less than one year. The investments and maturity terms are consistent with State law and the City's Investment Policy objectives to satisfy cash flow requirements, preservation and safety of principal, liquidity and diversification, maximize yield, and proactive portfolio management.

The market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 100.08% of their book value. 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.

### **Certain Significant Issues Affecting the City**

#### ***City Utilities***

The City owns its electric and gas systems and water and wastewater systems, each of which are managed by an appointed Board of Trustees. The City Public Service Board of San Antonio, Texas, known as CPS, operates and manages the City's electric and gas systems; the Board of Trustees of SAWS operates and manages the City's water and wastewater system. By separate ordinance, the City Council has provided that complete management and control of the applicable utility system is vested in the particular Board of Trustees regarding all matters except for appointment of CPS and SAWS board members, authorizing the issuance of bonds, setting rates, and exercising the power of eminent domain (which powers remain exclusively reserved to the City Council). These governance provisions are perpetuated each time the City issues a series of bonds secured by the revenues of the respective utility system. As demonstrated in Table 18 hereof, a portion of each utility system's annual net revenues are

transferred to the City (being a requirement in each City ordinance providing for the governance of the respective utility system) for City use.

As regional utility providers, both CPS and SAWS operate vast utility systems that are the subject of significant operational and regulatory issues that can and do impact their respective financial performance. These issues are generally limited to, and payable solely from, the revenues of the particular utility system, but such issues are nevertheless of importance to the City (and could impact the magnitude of the aforementioned annual transfer to the City by either such utility system). For a greater discussion of each utility system and significant issues affecting each, see the applicable discussion included in APPENDIX A hereto.

### *Air Quality*

On March 12, 2008, the Environmental Protection Agency (the “EPA”) revised national ambient air quality standards (“NAAQS”) for ground-level ozone (the primary component for smog). This revision was part of a required review process mandated by the Clean Air Act, as amended in 1990. Prior to the revision, an area met the ground-level ozone standards if the three-year average of the annual fourth-highest daily maximum eight hour average at every ozone monitor (the “eight-hour ozone standard”) was less than or equal to 0.08 parts per million (“ppm”). Because ozone is measured out to three decimal places, the standard effectively became 0.084 as a result of rounding. For years 2005 – 2007, during which the old standard applied, San Antonio maintained average ozone readings of 0.082 ppm and, therefore, has been compliant with historic EPA ground-level ozone standards.

The EPA’s March 2008 revision changed the NAAQS such that an area’s eight-hour ozone standard must not exceed 0.075 ppm rather than the previous 0.084. Thus, in 2007, under the new standard, the City would not have complied with the federal requirements regarding ground-level ozone. Since 2007, however, San Antonio’s unofficial eight-hour ozone average has been falling. According to the Texas Commission on Environmental Quality (“TCEQ”), the three-year average in 2008 at the Camp Bullis monitoring site was 0.078 ppm and 2009, 2010 and 2011 have been at or just under the limit of 0.075 ppm. The other San Antonio monitoring sites, Calaveras Lake and San Antonio Northwest, also have three-year averages at or just under the limit of 0.075 ppm.

The Clean Air Act requires the EPA to designate areas as “Attainment” (meeting the standards), “Nonattainment” (not meeting the standards), or “Unclassifiable” (insufficient data to classify). As a result of the revisions to the NAAQS, states were required to make recommendations to the EPA no later than March 12, 2009 for areas to be classified Attainment, Nonattainment, or Unclassifiable. Former Texas Governor Rick Perry submitted a list of 27 counties in Texas, including Bexar County, which should be designated as Nonattainment. The final designations were put on hold while the EPA worked on revising the standard even further downward, so Bexar County was never designated as Nonattainment.

On January 6, 2010, the EPA formally proposed a regulation that would lower the primary NAAQS for ozone to a level within a range of 0.060 to 0.070 ppm. The EPA postponed issuing a final rule revising the ozone NAAQS standards from August 31, 2010 to October 2010. At the end of 2010, the EPA postponed the final rule until July 2011. On September 2, 2011, President Obama requested that the EPA withdraw their draft of the NAAQS revision. On September 22, 2011, the EPA issued a memorandum stating it would designate areas as Nonattainment under the 2008 ozone standard of 0.075 ppm. On November 26, 2014, the EPA proposed ozone standards to within a range of 65 to 70 parts per billion (“ppb”), while taking comment on a level as low as 60 ppb. The proposed revision to the NAAQS was published in December 2014. On December 18, 2014, the EPA completed its initial Nonattainment designations under the 2012 annual fine particle standard, issuing a revision to the list on March 31, 2015. Bexar County was not on the list of designated counties.

On October 1, 2015, the EPA lowered the NAAQS for ground level ozone from 75 ppb to 70 ppb, “based on extensive scientific evidence about the ozone’s effects on public health and welfare”. The EPA was under a court order to finalize this rulemaking on or before such date. Under the Clean Air Act, the EPA has two years from the time it finalizes a revised NAAQS to complete the designation process. Some final designations were issued in 2017. On February 25, 2016, the EPA issued the area designations for the 2015 NAAQS in a memorandum, which also outlined the important factors that the EPA intends to evaluate in making the final Nonattainment area boundary decisions for these standards. On August 3, 2016, the TCEQ approved a recommended Nonattainment designation for Bexar County and submitted that recommendation to Texas Governor Greg Abbott for consideration. Texas Governor Greg Abbott’s recommendations of area designations within the State were due to the EPA by October 1,



2016. The EPA was expected to make final designations by October 1, 2017. On June 6, 2017, the EPA sent a letter to each state governor stating that designations would be delayed by one year, making October 2018 the new deadline; however, on August 11, 2017, the EPA stated it would provide designations by the original October 1, 2017 date. The EPA did not make the designations by October 1, 2017, and the designations were then expected to be made in spring 2018. On December 5, 2017 several states filed suit in the Northern District of California alleging the EPA had a duty to designate all areas within the country, as opposed to a partial designation of the counties released so far. Several environmental groups filed a lawsuit in the same court the day prior alleging the same causes of action. If the EPA issues a designation that deviates from a state's recommendation, it must notify the state at least 120 days prior to promulgating the final designations. Following the issuance of final designations, states are required to submit State Implementation Plans ("SIPs") outlining how they will reduce pollution to meet the new standards. These SIPs are due to the EPA by a date established under a separate rule, but will be no later than three years after the EPA's final designations (e.g., 2021 if the EPA makes its designations in 2018). On December 19, 2017, the United States Court of Appeals for the District of Columbia Circuit (the "D.C. Circuit Court") issued an order requiring the EPA to file a report describing when it plans to issue a final rule establishing air quality designation for the 2015 ozone NAAQS. In conjunction with the revised NAAQS, the EPA proposed separate rules to address monitoring the new standard. Generally, the proposal from the EPA would require a greater number of EPA-approved monitors in both urban and non-urban areas and longer ozone monitoring seasons in many states. For Texas, the proposal calls for year-round monitoring throughout the State. The EPA was scheduled to make remaining Attainment or Nonattainment designations no later than April 30, 2018, with the exception of Bexar County. On January 24, 2018, EPA Assistant Administrator William Wehrum stated in the California court proceedings that the EPA may take until August 10, 2018, to finalize designations for the eight counties in the San Antonio area. On July 17, 2018, the EPA, in response to a March 12, 2018 order of U.S. District Judge Haywood S. Gilliam Jr., finalized the designations for the eight counties in the San Antonio area (the "San Antonio Area"), which will take effect sixty (60) days after the notice summarizing the EPA's action is published in the Federal Register. Of the eight counties in the San Antonio Area, only Bexar County has been designated as marginal Nonattainment. Because the marginal Nonattainment classification is closest to meeting the federal ozone standard, achieving Attainment will require fewer mandatory planning and control requirements. The San Antonio Area is expected to reach Attainment not later than three years from the effective date of its Nonattainment designation (as the EPA noted that the San Antonio Area is "on the path toward Attainment"). The TCEQ issued a response stating that it disagreed with the EPA's decision to designate Bexar County as Nonattainment but that it would work with local stakeholders to address the Nonattainment designation. Because San Antonio has been designated as a marginal Nonattainment area a SIP is not required. In response to this designation, City leaders appointed the San Antonio Metropolitan Health Director to lead efforts to improve the area's air quality. On August 28, 2018, the State sued the EPA in the United States Court of Appeals for the Fifth Circuit disputing the Nonattainment designation, stating the EPA's decision would impose an unwarranted financial burden on the State's economy with minimal public health benefit. On October 17, 2018, a nationally-recognized ozone expert presented his findings to City Council regarding the San Antonio Area, which noted rotating wind patterns, industrial chemical compounds, and the current placement of air quality monitors as contributors to the City's air quality.

Studies have shown that standards significantly more stringent than those currently in place in the San Antonio Area and across the State are required to meaningfully impact an area's ground-level ozone reading, which will be necessary to achieve compliance with the new 70 ppb ozone standard. As of July 18, 2018, the three-year average of the fourth highest eight-hour reading at Camp Bullis is 72 ppb for the years 2016 through 2018.

Depending on the severity of the violation, air pollution control programs could include the Nonattainment New Source Review permitting program and Federal General Conformity and Transportation Conformity programs. When an area is designated as Nonattainment, state plans first focus on reduction of emissions from major pollution sources, such as power plants, cement factories, and then will focus on programs to further reduce emissions of pollutant precursors from sources such as cars, fuels, and consumer products. In the meantime, it must be demonstrated to the EPA that Reasonable Further Progress toward improving the air quality is being made in the Nonattainment area. However, EPA Administrator Andrew Wheeler noted that analysis from Texas about the role of international emissions and the scheduled closure of a local coal-fired plant will ensure implementation measures to meet standards will have minimal burden on economic development.

Economic development would not be totally stopped by a Nonattainment designation, but there could be costly consequences due to the designation. Limitation on production and operation of industrial facilities could be imposed, or installation of pollution control equipment could be required, or otherwise industrial facilities may be

asked to find reductions in emissions by “offsetting” in order to expand. New facilities wanting to locate in a Nonattainment area will most likely be required to install pollution controls or take stringent operational limits. There are also increased costs to businesses and consumers due to special requirements for vehicles, fuels sold in the area, and for commercial and consumer products.

Overall, these potential consequences can be summarized as the following:

1. **Loss of industry and economic development in and around the area.**  
Companies interested in building a major manufacturing plant in a Nonattainment area could be impacted due to the increased costs, delays, and uncertainties associated with the restrictive permit requirements.
2. **Loss of federal highway and transit funding.**  
Federally supported highway and transit projects may be halted in a Nonattainment area if the state cannot demonstrate that the project will cause no increase in applicable emissions.
3. **New emissions in the area must be “offset,” or the unit cannot be built.**  
Companies must offset the projected emissions of the proposed new plant or major modification by purchasing unused emission credits from others, or by reducing their own emissions. The ability to purchase emissions credits becomes increasingly difficult as the available emissions credits are used up over time. Similarly, the ability to reduce existing emissions at a plant that is proposing a major modification may be difficult or impossible for sources that already meet stringent standards and have installed emissions control equipment. Where no offset can be found, the project may not go forward. In ozone Nonattainment areas, offsets typically must be greater than 1:1 ratio (e.g., a ton of offsets per ton of emissions).
4. **Compensation for foreign sources of emissions.**  
Certain states may also have to compensate for contributions to ambient concentrations in an area coming from foreign sources (such as Mexico) in order to reach Attainment with the NAAQS.
5. **Additional restrictive permitting requirements that are not applied in Attainment areas.**  
Companies that plan to build a new facility or construct a major modification to an existing facility in, or near, a Nonattainment area will be required to install the most effective emission reduction technology *without consideration of cost*. Less stringent controls may be installed in Attainment areas. The permitting process can be expected to last a year or longer as the company demonstrates that its proposal will meet all of the applicable Nonattainment area requirements. These differences could discourage new business investments in Nonattainment areas compared with moving to an Attainment area.
6. **Greater EPA involvement and oversight in permit decisions.**  
EPA may intervene and require permit revisions, even after the state and company seeking the permit have negotiated the terms of a final permit. This causes tremendous uncertainty, delays, and increased costs in the permitting process.
7. **Continuing oversight by EPA even after the Nonattainment area meets the standard.**  
Before a Nonattainment area can be re-designated as an Attainment area, EPA must determine that: 1) the area has met the standard (for ozone, this means it must be in Attainment for three full years); 2) the improvement in the area’s air quality is due to permanent and enforceable emissions reductions; and 3) the area has an approved maintenance plan and an approved contingency plan that contain enforceable requirements to keep the area from lapsing into Nonattainment.
8. **Technical and formula changes for commercial and consumer products.**  
In order to meet the NAAQS standard, some SIPs may include regulations that would reduce the pollutant or its chemical “precursors” (e.g., for ozone, certain types of Volatile Organic Compounds (“VOC”)), by requiring changes to operating processes, to a product’s technical design, or to the actual chemical formulation of commercial or consumer products, such as paint, which may result in increased costs to users or differences in performance.

Failure by an area to comply with the EPA's rules and regulations regarding ground level ozone by the requisite time could result, in the most serious of scenarios, in the EPA delivering a mandatory Federal Implementation Plan to the region in a move beyond the State's authority, and imposing a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects. From time to time, various plaintiff environmental organizations have filed lawsuits against the TCEQ and the EPA seeking to compel the early adoption of additional emission reduction measures.

On December 6, 2018, the EPA issued final requirements that apply to state, local, and tribal air agencies for implementing the 2015 NAAQS for ground-level ozone. The EPA revised both the health-based and welfare-based standards for ozone on October 1, 2015 to 70 ppb. This final rule is largely an update to the implementing regulations previously promulgated for the 2008 ozone NAAQS, and the EPA is retaining without significant revision most of those provisions to implement the 2015 ozone NAAQS. The EPA determined the interstate pollution transport obligations (under the 2008 NAAQS for the twenty affected states, including Texas) do not extend to the submission of SIPs establishing additional control requirements. The final rule includes attainment demonstrations, reasonable further progress and associated milestone demonstrations, reasonably available control technology, reasonably available control measures, major nonattainment new source review, emissions inventories, the timing of required SIP submissions and compliance with emissions control measures in the SIP. The EPA is not taking any final action on the EPA's proposed approach for revoking the prior ozone NAAQS and establishing antibacksliding requirements. The EPA intends to address any revocation of the 2008 ozone NAAQS and any potential anti-backsliding requirements in a separate future rulemaking.

On August 1, 2018, the EPA stated in a court filing it does not intend to revisit and modify the previously promulgated rules related to the 2015 ozone standard (ending speculation as to this anticipated change).

The City continues to work closely with the Alamo Area Council of Governments on strategies for reducing ozone levels in the San Antonio Area and surrounding counties. The Metropolitan Health District plans to organize a group of stakeholders to work with TCEQ regarding the SIP as it pertains to Bexar County. The City's Metropolitan Health District's Ozone Attainment Program is seeking feedback on its proposed Ozone Attainment Master Plan to reduce ozone levels as the program's SASPEAKUP Air Quality Survey is made available for public comment in the early part of May 2019 and finalized in June 2019.

## **LITIGATION AND REGULATION**

### **General Litigation and Claims**

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; class actions and promotional practices; various claims from contractors for additional amounts under construction contracts; and property tax assessments and various other liability claims. The amount of damages in most of the pending lawsuits is capped under the Texas Tort Claims Act (the "TTCA"). Therefore, as of the City's fiscal year ended September 30, 2018, the amount of \$17,050,516 (unaudited) is included as a component of the reserve for claims liability. The estimated liability, including an estimate of incurred but not reported claims, is recorded in the Insurance Reserve Fund of the City. The status of such litigation ranges from early discovery stage to various levels of appeal of judgments both for and against the City. The City intends to defend vigorously against the lawsuits, including the pursuit of all appeals; however, no prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the outcome of such lawsuits.

In the opinion of the City Attorney, it is improbable that the lawsuits now outstanding against the City could become final in a timely manner, as determined by the date posted hereof, so as to have a material adverse financial impact upon the City that should be reflected in the financial information of the City included herein.

The City provides the following updated information related to the lawsuits:

*Jimmy Maspero and Regina Maspero, et al. v. City of San Antonio, et al.* Plaintiffs allege that on September 19, 2012 Plaintiffs' vehicle was involved in a collision with a vehicle being pursued by a San Antonio Police Department ("SAPD") patrol car causing the death of two of the Plaintiffs' children and severe permanent injuries to the remaining Plaintiffs (two children, two adults). The Plaintiffs have asserted a "state-created danger" theory

under 42 U.S.C. § 1983 alleging a violation of Plaintiffs' 14th Amendment substantive due process. Plaintiffs are also asserting State law theories of negligence. The Plaintiffs seek to recover damages for mental anguish, physical pain, impairment, medical expenses, and the wrongful death of two of their children. Plaintiffs are seeking monetary damages of at least \$3 million. This case has been remanded back to the State District Court. On February 19, 2018, the District Court granted the City's plea to the jurisdiction, dismissing all claims. Plaintiffs' motion for a new trial was denied. Plaintiffs filed an appeal to the Fourth Court of Appeals. Briefing has been completed. Oral argument was held on April 18, 2019.

*Estate of Norman Cooper, et al. v. City of San Antonio, et al.* SAPD officers were called to a residence on a report of domestic violence. At the scene, Decedent was tased on two separate occasions. Decedent later collapsed and died. Decedent's estate and family members have filed suit against the City and named officers alleging use of excessive force in violation of 42 U.S.C. § 1983. Plaintiffs seek damages in excess of \$250,000. Discovery closed on September 1, 2017. This matter is not yet set for trial. The Court granted the City's motion for summary judgment, but denied the officers' motions for summary judgment. The denial of the officers' motions for summary judgment on the issue of excessive force has been appealed to the Fifth Circuit. Briefing has been completed. Trial on this matter has been stayed.

*Elena Scott, Individually and as Representative of the Estate of Antronie Scott v. City of San Antonio, et al./Diane Peppar, et al. v. City of San Antonio, et al.* A SAPD officer was attempting to execute an arrest warrant when Plaintiff's Decedent exited his vehicle with an object the officer believed was a weapon. The officer discharged his service weapon, fatally wounding the Decedent. Plaintiffs have filed suit under 42 U.S.C. § 1983 alleging use of excessive force. This case was consolidated with *Diane Peppar v. City of San Antonio*. Diane Peppar is Decedent Antronie Scott's mother. At present, no trial date is set. Discovery has been completed in this case. In March 2019, the court granted the City's motion for summary judgment, dismissing all claims against the City. The officer's motion for summary judgment was granted in part but denied as to the claims of excessive force and unreasonable seizure. This matter has been set for trial on January 27, 2020.

*Rogelio Carlos III, et al. v. Carlos Chavez, et al.* SAPD SWAT officers were assisting High Intensity Drug Trafficking Areas ("HIDTA") in the search for a fleeing suspect. Plaintiff was misidentified by the HIDTA officer as being the suspect. The HIDTA officer engaged and attempted to physically apprehend the Plaintiff and was assisted by SAPD SWAT officers. The Plaintiff suffered minor injuries as a result of the arrest, although he later complained of neck and shoulder/arm pain. Several months after the incident, the Plaintiff underwent surgery, during which procedure the Plaintiff was paralyzed. Plaintiff has filed a suit against the City and various officers under 42 U.S.C. § 1983. The Plaintiff has amended their suit to include the physicians involved in the Plaintiff's surgical procedure. Discovery is ongoing. motions for summary judgment have been filed. This case has not been set for trial.

*Neka Scarborough Jenkins v. City of San Antonio.* Plaintiff's Decedent was driving northbound on Blanco Road and attempted to turn left onto Lockhill Selma at a controlled traffic signal. Plaintiff contends that the traffic signal for her lane of traffic was facing the wrong direction. While making the turn, Decedent was struck by an oncoming vehicle and was killed. Plaintiff claims the City had prior notice but failed to correct the issue within a reasonable period of time. Plaintiff claims the investigation revealed the light was placed too low and was not at the correct height for a traffic signal. This is a fairly new litigation and is brought under the TTCA. Facts and damages have not been vetted through the discovery process at this time. Under the TTCA, damages are capped at \$250,000. Discovery is ongoing. This case is not yet set for trial.

*Patricia Slack, et al. v. City of San Antonio and Steve Casanova.* SAPD officers responded to persons complaining they had been assaulted in front of a nearby residence. The officers went to the address provided by the victims and approached the front door, which was behind a security door made of metal bars. The officers knocked, and the door swung open to the living room, although the security door remained closed. At least three individuals were present in the living room. One individual stood and approached the door while reaching his hand into his waistband. Officer Casanova discharged his weapon. A bullet fired by Officer Casanova grazed one individual and fatally struck a second individual. A suit was brought on behalf of the estate of the deceased, the injured individual and another individual on the scene. Plaintiffs have filed suit under 42 U.S.C. § 1983 alleging use of excessive, deadly force. Discovery is ongoing. No trial date has been set.

*Texas Sterling Construction Co. v. City of San Antonio.* The City contracted with Plaintiff in a Construction Manager at Risk Contract to build road improvements on Bulverde Road. Plaintiff billed on a unit cost basis and after the City paid all the bills, Texas Sterling Construction Co. wrote complaining it should have been paid for actual costs. They also claim the City caused multiple delays. Plaintiff filed suit for breach of contract and is claiming damages in excess of \$250,000. Discovery is ongoing. This case is set for trial on March 23, 2020.

### **Collective Bargaining Negotiations**

The City is required to collectively bargain the compensation and other conditions of employment with its fire fighters and police officers. The City engages in such negotiations with the association selected by the majority of fire fighters and police officers, respectively, as their exclusive bargaining agent. The International Association of Fire Fighters, Local 624 (“Local 624”) is the recognized bargaining agent for the fire fighters. The San Antonio Police Officers Association (“SAPOA”) is the recognized bargaining agent for the police officers. The following is a status of the collective bargaining negotiations with each association.

*Collective Bargaining Agreement between the City of San Antonio and the San Antonio Police Officers Association.* The City Council approved a collective bargaining agreement with the SAPOA on September 1, 2016, which provides for a term through September 30, 2021.

*Collective Bargaining Agreement between the City of San Antonio and the International Association of Fire Fighters, Local 624.* The collective bargaining agreement between the City and Local 624 expired September 30, 2014, with evergreen possible through September 30, 2024. The City sought a court-ordered determination that the evergreen clause was unconstitutional. The district and appellate courts did not agree and the Texas Supreme Court declined to hear the City’s appeal, effectively ending the lawsuit in 2018. Local 624 agreed to start labor negotiations on February 6, 2019, with the parties invoking the services of a former Texas Supreme Court Justice as a mediator on April 17, 2019. The parties continue their mediation with the expectation that it will result in a newly negotiated contract before the start of Fiscal Year 2020.

### **CITY PENSION AND OTHER POSTEMPLOYMENT RETIREMENT BENEFIT LIABILITIES**

An actuarial valuation is conducted annually on each of the City’s pension benefit plans (collectively, the “City Pension Benefits Plans”), which include the Fire and Police Pension Fund (the “Fund”) and the Texas Municipal Retirement System (“TMRS”). Such actuarial valuations, conducted in accordance with generally accepted actuarial principles and practices, summarize the funding status of each of such plans as of the respective ending dates of the prior two fiscal years, as well as projects funding contribution requirements for the immediately succeeding fiscal year. The respective actuarial values of each plan’s assets represents an adjusted value, as determined by the actuary in accordance with industry standards, and will not, therefore, equal the amounts shown in the City’s statement of net position.

#### ***Fire and Police Pension Plan***

The Fund is a single-employer defined benefit plan which provides retirement benefits to eligible employees of the San Antonio fire and police departments. The Fund was established in accordance with the laws of the State. The Fund is administered by a nine member Board of Trustees which includes two City Council members, the Mayor or his appointee, two active police officers, two active firefighters, and two uniformed retirees.

The Fund’s actuaries calculated the City’s Net Pension Liability (“NPL”) which is the plan’s total pension liability calculated with the Entry Age Normal actuarial funding method, less the plan’s fiduciary net position; and the Fund’s Net Position as a percentage of the Total Pension Liability (“TPL”). The NPL for the Fund as of December 31, 2017 was \$349.3 million with a Fund Net Position as a percentage of the TPL of 90.15%.

The Fund’s annual required contribution for FY 2017 is determined by pension law. Significant assumptions included in the December 31, 2017 actuarial valuation were (a) 7.25% investment rate of return and (b) projected annual salary increase of 3.00%. The actuarial valuation utilizes a technique that smooths the effects of short-term volatility in the market value of investments over a five-year period with a 20.00% corridor.

## ***Texas Municipal Retirement System***

TMRS' NPL as of December 31, 2017 was \$422.4 million with a Fund Net Position as a percentage of the TPL of 77.93%.

The City provides benefits for all eligible employees (excluding firefighters and police officers) through a nontraditional, joint contributory, hybrid defined benefit plan in TMRS. TMRS is a statewide agent multiple-employer public employee retirement system created by law in 1947 to provide retirement and disability benefits to City employees. TMRS, as of December 31, 2017, is the agent for 883 participating entities. It is the opinion of the TMRS management that the plans in TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the TMRS plan.

In the FY 2018 Budget, City Council adopted a one-time annuity increase that was provided to retired employees and to beneficiaries of deceased employees. The amount of the increase is computed as the sum of the prior service and current service annuities on the effective date of retirement of the person on whose service the annuities are based. This number was multiplied by 70% of the percentage change in the Consumer Price Index for All Urban Consumers, from December of the year immediately preceding the effective date of the person's retirement to the December that is 13 months before the effective date of the increase. The provision for the one-time annuity contribution rate increased was 11.66%, effective January 1, 2018.

Benefits depend upon the sum of the employee's contributions to the TMRS plan, with interest, and the City-financed monetary credits, with interest. At the date the TMRS plan began, the City granted monetary credits for service rendered before the TMRS 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 TMRS plan. Monetary credits for service since the TMRS plan began are a percentage of the employee's accumulated contributions. In addition, the City may grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the TMRS plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percentage had always been in existence and if the employee's salary had always been the average salary for 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 City-financed monetary credits with interest were used to purchase an annuity.

Members are eligible to retire upon attaining the normal retirement age of 60 and above with five or more years of service, or with 20 years of service regardless of age. The TMRS plan also provides death and disability benefits. A member is vested after five years, but must leave accumulated contributions in the TMRS plan. If a member withdraws the contributions with interest, the member would not be entitled to the City-financed monetary credits, even if vested.

TMRS provisions and contribution requirements are adopted by the governing body of the City within the options available in the State statutes governing TMRS and within the actuarial constraints contained in the statutes.

Contribution requirements are actuarially determined by TMRS' actuary. The contribution rate for the City's employees is 6% and the matching percent was 11.66% for calendar year 2018, both as adopted by the governing body of the City. Under the State law governing TMRS, the employer's contribution rates are annually determined by the actuary, using the Entry Age Normal actuarial cost method. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percentage of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortized the unfunded (overfunded) actuarial liability (asset) over the applicable period for the City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as updated service credits and annuity increases.

The normal cost contribution finances the currently accruing monetary credits due to the City matching percentage, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percentage of payroll necessary to satisfy the obligation of the City to each employee at the time the employee's retirement becomes effective. Contributions are made monthly by both the employees and the City. All current year required

contributions of the employees and the City were made to TMRS. Due to the fact that the City requires the contribution rates in advance for budget purposes, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

Investments are reported at fair value. Fixed income securities are valued by pricing vendors that utilize quoted market prices, broker prices, or other valuation methodologies. Fair values of the equity index funds (commingled funds) are determined based on the funds' net asset values at the date of valuation. Short-term investment funds, certificates of deposit, and repurchase agreements are reported at cost, which approximates fair value. Security transactions are reported on a trade-date basis.

<u>Membership as of the Valuation Date</u>	<u>12/31/2017</u>
Number of:	
Active Members	6,939
Retirees and beneficiaries	4,671
Inactive members	2,777
Total	<u>14,387</u>

TMRS' administration costs are funded from a portion of TMRS' annual investment earnings.

TMRS issues a publicly available financial report that includes financial information and required supplementary information for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used related to participating municipalities. The report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com). The Summary of Actuarial Liabilities and Funding Progress is located in the Actuarial Section of the report, and it presents multi-year trend information regarding the actuarial value of plan assets relative to the actuarial liability for benefits.

#### **Other City Postemployment Retirement Benefits**

In addition to the Pension Benefits, the City provides most retired employees with certain health benefits under two postemployment retirement benefit programs. Pursuant to GASB Statement No. 75, the City is required to account for and disclose its other postemployment liability for these programs. The City continues to actively review and have actuarial valuations performed for these programs as required. In addition to the disclosure provided in Note 10 of the City's CAFR, the following information is provided for each of the City's other postemployment retirement benefit programs.

Civilian and pre-October 1, 1989 uniformed retirees are covered under the City's post-employment benefit programs. The first program offered is for pre-Medicare eligible retirees. As of September 30, 2018, there were 393 retirees and surviving spouses participating in this program. These retirees are covered under a program comprised of two self-funded PPO health plans currently administered by Blue Cross Blue Shield of Texas. These plans may be amended at any time with approval from the City Council.

The second program is for Medicare eligible retirees and surviving spouses. These retirees and surviving spouses may participate in one of two Medicare Advantage PPO Plans or the Medicare Part D Drug Plan. All retirees and surviving spouses are required to apply for and maintain Medicare Parts A & B coverage once they reach age 65 or otherwise become eligible for Medicare in order to participate in this option. Of the current 1,143 participating Medicare retirees and surviving spouses, 147 participate in a fully insured Medicare Advantage PPO Plus plan, 993 participate in a Medicare Advantage PPO plan, and three participate in the Medicare Part D Drug Plan.

These programs are funded on a pay-as-you-go basis with an aggregate sharing of premium costs based on the following targets: 67% by the City and 33% by the retiree for those retirees hired prior to October 2007. With the adoption of the FY 2008 Budget, additional changes were made to this retirement health plan. For all non-uniformed employees beginning employment on or after October 1, 2007, a revised schedule for sharing of the costs on a pay-as-you-go basis is effective. The revised schedule is as follows: (1) Employees who separate from the City with less than five years of service are not eligible to participate in the program; (2) Employees who separate with at least five years of service but less than 10 years of service are eligible to participate in the program but without City subsidy; and (3) Employees who separate from employment with 10 years of service or more will pay

for 50% of the pay-as-you-go contributions to the program and the City will contribute the remaining 50%. The ability to participate in the program remains based on meeting retirement criteria for the TMRS Pension Plan.

A dental and vision insurance benefit is made available to eligible retired employees on a fully contributory basis. Since retirees pay the full premium for dental and vision benefits, there is no liability associated with either benefit. Employees must be a minimum of age 60 and have at least five years of service, or have at least 20 years of service at any age to be eligible for retiree benefits.

Employees who qualify for a disability pension under TMRS rules are also eligible to receive the retiree medical benefit under this plan. There is no minimum length of service or age required to be eligible.

The City intends to conduct actuarial studies of this plan bi-annually with annual reviews of assumptions and changes in benefits to compute OPEB liability. Most recently, an actuarial valuation of the plan was performed as of September 30, 2018, for fiscal year ended September 30, 2018, with the net OPEB liability reported at \$306.1 million. The plan continues to be funded on a pay-as-you-go basis and no prefunding has occurred to date.

The other postemployment benefit program of the City, the Fire and Police Retiree Health Care Fund, San Antonio ("Health Fund"), is a Texas statutory retirement health trust for firefighters and police officers of the City. The trust holds assets and liabilities of the City's Fire and Police Retiree Health Care Plan ("Plan"). This Plan is a single-employer defined benefit postemployment health care plan that was created in October 1989 in accordance with provisions established by contract with the local fire and police unions to provide postemployment health care benefits to police officers and firefighters of the City retiring after September 30, 1989. Authority to establish and amend the Plan's postemployment health care benefits is based on such contracts and the Texas Legislature enacts regulations that control the operation of the Health Fund. The statutory trust is governed by a Board of Trustees (the "Health Fund Board") that meets on a monthly basis. The Health Fund Board consists of nine members: the Mayor or his appointee; two members of the City Council; one retired and two active duty police officers; and one retired and two active duty firefighters. The City is the only participating employer in the Plan.

The Health Fund provides postretirement health benefits for uniform employees of the fire and police departments who become eligible retirees, and their spouses. Eligible retirees are those who retire after October 1, 1989. Eligible spouses are spouses at the time of retirement of the eligible retirees and either remain married to or survive the eligible retiree. In addition, eligible spouses include the surviving spouses of active members whose death was duty related or who died while eligible for retirement. Retirement eligibility is according to the provisions of the Fire and Police Pension Fund, San Antonio, which requires 20 or more years of service after completing the required training to be certified.

The health benefits are indemnity style coverage with a maximum annual deductible per individual (\$654 in-network) and maximum out-of-pocket payments per individual (\$2,482 in-network). After age 65, the benefits are coordinated with Medicare. The maximum deductible and out-of-pocket payments are indexed according to the annual increase in the medical care category of the CPI-U.

Since its inception, the Health Fund has been funded primarily by contributions from the City and active firefighters and police officers, as part of the compensation for services rendered by members, and by contributions made by retirees for their dependents. As of the January 1, 2018 valuation date, the contributions required by the City were 10.34% of average covered pay of the combined fire and police departments for the City's fiscal year 2017-2018. For the active fire and police employees, the contributions required were 5.17% of the average covered pay for the City's fiscal year 2017-2018. Based on the January 1, 2018 actuarial valuation, the rates will be 12.51% and 6.26% for the City's fiscal year 2019-2020 for the City and the employees, respectively.

Ultimately, the funding policy also depends upon the total return of the Fund's assets, which varies from year to year. Investment policy decisions are established and maintained by the Board of Trustees. The board selects and employs investment managers with the advice of their investment consultant who is completely independent of the investment managers. The measurement of the investment performance is net of investment-related expenses, reflecting the effect of the timing of the contributions received and the benefits paid during the year.



Membership in the Plan consisted of the following at December 31, 2017:

Active members	3,901
Inactive members currently receiving benefits	3,716
Inactive members entitled to but not yet receiving benefits	-
Total	<u>7,617</u>

The total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following assumptions:

Inflation	3.00%
Salary increases	3.00% plus merit and promotion increases that vary by age and service
Discount Rate	7.25%
Health benefit costs trend rates	7.00% for 2019 decreasing 0.5% per year to an ultimate rate of 4.5% for 2024 and beyond

In order to have an adequate contribution arrangement, contributions must be made that are sufficient to pay the plan's normal cost and to amortize the plan's unfunded actuarial accrued liability (UAAL) over 30 years. The total level required contribution rate to satisfy this objective of paying the normal cost and amortizing the UAAL in 30 years is 19.96% based on the January 1, 2018 actuarial valuation.

Since the contribution rates of 15.51% through September 2018 and 17.06% for the City's fiscal year 2019 are less than 19.96%, future changes (increases in contributions and reductions in benefits) are expected to be necessary. Both the City and the fire/police contribution rates would increase up to 10% each year until the Health Fund has an amortization period of 30 years. Additionally, benefit reductions began on January 1, 2018, and continues in 2019, resulting from imposed increases of up to 10% each year in the maximum deductible and in the maximum out-of-pocket payments. The Health Fund's Net OPEB as of September 30, 2018 was \$595.8 million with a funded ratio of 38.74%.

Additionally, the actuarial valuation includes a five-year smoothing of market value with an 80%/120% corridor. As such, investment losses are being smoothed which results in the deferred recognition of \$2.5 million in investment losses. These losses will be recognized in future actuarial valuations to the extent they are not offset by investment gains above the Health Fund's assumed investment return of 7.25% or other actuarial gains.

## CAFR Discussion

In the CAFR, the City's existing pension and other OPEB plans are described (see, for example, "FINANCIAL INFORMATION – Fiscal Management and Administrative Topics" included in the CAFR, as well as Notes 9 and 10 thereof discussed above). In addition, the pension schedules included in the CAFR under the heading "REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES OF FUNDING PROGRESS LAST THREE FISCAL YEARS" disclose certain pension plan funding liabilities, including the net OPEB liability. Investors should carefully review this information and the information contained herein prior to investing in the 2019 Obligations.

## TAX MATTERS

### Tax-Exemption

The delivery of the 2019 Obligations is subject to the opinion of Norton Rose Fulbright US LLP and Kassahn & Ortiz, P.C., Co-Bond Counsel, both of San Antonio, Texas, to the effect that interest on the 2019 Obligations for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof 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. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. The form of Co-Bond Counsel's opinion appears in APPENDIX B hereto.

In rendering the foregoing opinion, Co-Bond Counsel will rely, as applicable, upon the special report of the Accountants (see “VERIFICATION OF MATHEMATICAL COMPUTATIONS” herein) and upon representations and certifications of the City made in certificates of even date with the initial delivery of the 2019 Obligations pertaining to the use, expenditure, and investment of the proceeds of the 2019 Obligations and will assume continuing compliance with the provisions of the Ordinance by the City subsequent to the issuance of the 2019 Obligations. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the 2019 Obligations and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the 2019 Obligations are to be invested, if required, the calculation and payment to the United States Treasury of any arbitrage “profits” and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the 2019 Obligations to be includable in the gross income of the owners thereof from the date of the issuance of the 2019 Obligations.

Except as described above, Co-Bond Counsel will express 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 2019 Obligations. Co-Bond Counsel’s opinion is not a guarantee of a result, but represents their legal judgment based upon their 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” or the “Service”) with respect to the matters addressed in the opinion of Co-Bond Counsel, and Co-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 municipal obligations. If an audit of any series of the 2019 Obligations is commenced, under current procedures the IRS is likely to treat the City as the “taxpayer”, and the owners of the 2019 Obligations 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 2019 Obligations, the City may have different or conflicting interests from the owners of the 2019 Obligations. Public awareness of any future audit of any series of the 2019 Obligations could adversely affect the value and liquidity of the 2019 Obligations during the pendency of the audit, regardless of its ultimate outcome.

### **Tax Changes**

Existing law may change to reduce or eliminate the benefit to the owners of 2019 Obligations of the exclusion of interest on the 2019 Obligations 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 2019 Obligations. Prospective purchasers of any series of 2019 Obligations should consult with their own tax advisors with respect to any proposed or future changes in tax law.

### **Ancillary Tax Consequences**

Prospective purchasers of the 2019 Obligations should be aware that the ownership of tax-exempt obligations such as the 2019 Obligations may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust (“FASIT”), individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

### **Tax Accounting Treatment of Discount Obligations**

The initial public offering price to be paid for certain 2019 Obligations may be less than the amount payable on such 2019 Obligations at maturity (the “Discount Obligations”). An amount equal to the difference between the initial public offering price of a Discount Obligation (assuming that a substantial amount of the Discount Obligations 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 Obligations. A portion of such original issue discount, allocable to the holding period of a Discount Obligation by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Tax-

Exempt Obligations. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Obligation, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Obligation 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 his taxable year.

However, such accrued interest may be required to be taken into account 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, property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

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

#### **Tax Accounting Treatment of Premium Obligations**

The initial public offering price to be paid for certain 2019 Obligations may be greater than the stated redemption price on such 2019 Obligations at maturity (the “Premium Obligations”). An amount equal to the difference between the initial public offering price of a Premium Obligation (assuming that a substantial amount of the Premium Obligations of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Obligations. The basis for federal income tax purposes of a Premium Obligation 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 with respect to the Premium Obligations. 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 Obligation. 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 Obligations should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Obligations for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Obligations.

#### **REGISTRATION AND QUALIFICATION OF 2019 OBLIGATIONS FOR SALE**

The sale of the 2019 Obligations 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 2019 Obligations have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the 2019 Obligations been qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for qualification of the 2019 Obligations under the securities laws of any jurisdiction in which the 2019 Obligations may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the 2019 Obligations must not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

It is the obligation of the Underwriters to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The City has agreed to cooperate, at the Underwriters’ written request and sole expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any

state where such action is necessary; provided, however, that the Underwriters shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

### **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended), provides that the 2019 Obligations are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the 2019 Obligations by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) requires that the 2019 Obligations be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency. (See “RATINGS” herein.) In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the 2019 Obligations are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The 2019 Obligations are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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 2019 Obligations for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the 2019 Obligations for such purposes. The City has made no review of laws in other states to determine whether the 2019 Obligations are legal investments for various institutions in those states.

### **LEGAL MATTERS**

The City will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the 2019 Obligations, including the unqualified approving legal opinions of the Attorney General of the State to the effect that the 2019 Obligations are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the legal opinion of Co-Bond Counsel to the effect that the 2019 Obligations are valid and legally binding obligations of the City and, subject to the qualifications set forth herein under “TAX MATTERS”, the interest on the 2019 Obligations is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. Co-Bond Counsel have been retained by and only represent the City. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the 2019 Obligations, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the 2019 Obligations will also be furnished. In their capacity as Co-Bond Counsel, Norton Rose Fulbright US LLP and Kassahn & Ortiz, P.C., both of San Antonio, Texas, have reviewed the information appearing in this Official Statement under the captions “PURPOSES AND PLAN OF FINANCING – Refunded Obligations”, “THE 2019 OBLIGATIONS” (except for the information under the subcaptions “Redemption Provisions – Notices and Redemption through The Depository Trust Company”, “Payment Record”, and “Book-Entry-Only System”, as to which no opinion is expressed), “TAX MATTERS”, “REGISTRATION AND QUALIFICATION OF OBLIGATIONS FOR SALE”, “LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS”, “LEGAL MATTERS” (except for the last sentence of each of the first and second paragraphs thereof, as to which no opinion is expressed), and “CONTINUING DISCLOSURE OF INFORMATION” (except under the caption “Compliance with Prior Undertakings”, as to which no opinion is expressed) to determine whether such information fairly summarizes the material and documents referred to therein and is correct as to matters of law. Co-Bond Counsel have not, however, independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Co-Bond Counsel’s limited participation as an assumption of responsibility for, or an expression of opinions of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid to Co-Bond Counsel for services rendered in connection with the issuance of the 2019 Obligations are contingent on issuance and delivery of the 2019 Obligations. The legal opinion of Co-Bond Counsel will accompany each series of the 2019 Obligations deposited with DTC or will be printed on the definitive obligations in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the

Underwriters by their Counsel, \_\_\_\_\_, \_\_\_\_\_, Texas, whose fee is contingent upon the issuance of the 2019 Obligations, and for the City by the City Attorney.

Co-Bond Counsel each represent the Co-Financial Advisors and the Underwriters from time to time in matters not related to the 2019 Obligations. Underwriters' Co-Counsel each represent the City and the Co-Financial Advisors from time to time in connection with matters unrelated to the issuance of the 2019 Obligations.

The various legal opinions to be delivered concurrently with the delivery of the 2019 Obligations express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

## **RATINGS**

The City has applied to Fitch, Moody's, and S&P, respectively, for contract ratings on the 2019 Obligations. An explanation of the significance of such ratings may be obtained from Fitch, Moody's, and S&P. The respective ratings of the 2019 Obligations by Fitch, Moody's, and S&P reflect only the views of said companies at the time the ratings are given, and the City makes no representations as to the appropriateness of the ratings. There is no assurance that any rating will continue for any given period of time, or that a rating will not be revised downward or withdrawn entirely if, in the judgment of the applicable rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating may have an adverse effect on the market price of the 2019 Obligations.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Ordinances, the City has made the following agreements for the benefit of the holders and Beneficial Owners of the 2019 Obligations. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the 2019 Obligations. Under the agreements, the City will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the MSRB. The information provided to the MSRB through EMMA is available free of charge at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Annual Reports**

Under Texas law, including, but not limited to, Chapter 103, Texas Local Government Code, as amended, the City must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant, and must file each audit report with the City Clerk. The City's fiscal records and audit reports are available for public inspection during the regular business hours of the City Clerk. Additionally, upon the filing of these financial statements and the annual audit, these documents are subject to the Texas Open Records Act, Texas Government Code, Chapter 552, as amended. Thereafter, any person may obtain copies of these documents upon submission of a written request to the City Clerk, City of San Antonio, Texas, 100 Military Plaza, San Antonio, Texas 78205, and upon paying the reasonable copying, handling, and delivery charges for providing this information.

In the Ordinances, the City has agreed to provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement indicated as Tables 1A-13 and 16-19, and in the CAFR, substantially in the manner set forth in APPENDIX C to this Official Statement. The City will update and provide this information within six months after the end of its fiscal year.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited information within the audit report by the required time and audited financial statements when and if the audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in the CAFR, substantially in the manner set forth in APPENDIX C to this Official Statement, or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

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

### **Notices of Certain Events**

The City has agreed to file with the MSRB notice of any of the following events with respect to the 2019 Obligations in a timely manner (and not more than ten business days after 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 federal income tax status of the 2019 Obligations, or other material events affecting the tax status of the 2019 Obligations; (7) modifications to rights of holders of the 2019 Obligations, if material; (8) obligation calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the 2019 Obligations, 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 a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material; (15) incurrence of a Financial Obligation of the City (as defined by the Rule, which includes certain debt, debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such Financial Obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such Financial Obligation of the City, any of which reflect financial difficulties. None of the 2019 Obligations nor the Ordinances makes any provision for debt service reserves, credit enhancement, or liquidity enhancement; neither the 2019 Notes nor the 2019 Note Ordinance makes provision for redemption of the 2019 Notes prior to stated maturity. In the Ordinances, the City adopted policies and procedures to ensure timely compliance with its continuing disclosure undertakings. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to the MSRB.

For these purposes, (a) any event described in clause (12) of 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, and (b) the City intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

### **Availability of Information**

Effective July 1, 2009 (the "EMMA Effective Date"), the SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the City in accordance with its undertaking made for the 2019 Obligations will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

With respect to debt of the City issued prior to the EMMA Effective Date, the City remains obligated to make annual required filings, as well as notices of material events, under its continuing disclosure obligations relating to those debt obligations (which includes a continuing obligation to make such filings with the Texas state information

depository (the “SID”). Prior to the EMMA Effective Date, the Municipal Advisory Council of Texas (the “MAC”) had been designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the MAC entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA’s website simultaneously with such posting. Until the City receives notice of a change in this contractual agreement between the MAC and EMMA or of a failure of either party to perform as specified thereunder, the City has determined, in reliance on guidance from the MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to its continuing disclosure agreements entered into prior to the EMMA Effective Date.

### **Limitations and Amendments**

The City has agreed to update information and to provide notices of certain 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 obligations 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 the 2019 Obligations may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell the 2019 Obligations in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (i) the holders of a majority in aggregate principal amount of the outstanding 2019 Obligations consent to the amendment or (ii) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered owners of the 2019 Obligations. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the 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 2019 Obligations in the primary offering of the 2019 Obligations. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

### **Compliance with Prior Undertakings**

During the prior five years, the City has complied in all material respects with continuing disclosure agreements made by it in accordance with the Rule.

For additional information relating to the City’s continuing disclosure filing history, see [www.emma.msrb.org](http://www.emma.msrb.org).

### **EFFECT OF SEQUESTRATION**

The City has determined that the reduced amount of refundable tax credit payments to be received from the United States Treasury in relation to its outstanding obligations designated as “build America bonds” and “qualified bonds” under the Code as a result of the automatic reductions in federal spending effective March 1, 2013 pursuant to the Budget Control Act of 2011 (commonly referred to as “Sequestration”) will not have a material impact on the financial condition of the City or its ability to pay regularly scheduled debt service on its outstanding obligations when and in the amounts due and owing. Under current law, Sequestration is scheduled to continue through September 2027. The current reduction in debt subsidy payment received by the City from the U.S. Treasury as a result of Sequestration is 5.9% (being the most recently announced rate of sequester and effective as of October 1, 2019).

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

The issuance of the 2019 Obligations will be subject to delivery by the Accountants of a report of the mathematical accuracy of certain computations. The Accountants will verify from the information provided to them the mathematical accuracy as of the date of the closing on the 2019 Obligations of the computations contained in the provided schedules to determine that the anticipated receipts from the Federal Securities and cash deposits listed in the schedules provided by Hilltop Securities Inc. (a Co-Financial Advisor) to be held in the Escrow Fund, will be sufficient to pay, when due, the principal and interest requirements of the Refunded Obligations. The Accountants will express no opinion on the assumptions provided to them. Such verification of accuracy of such mathematical computation will be based upon information and assumptions supplied by the City and Hilltop Securities Inc., and such verification, information and assumptions will be relied on by Co-Bond Counsel in rendering their opinion described herein.

## **FORWARD-LOOKING STATEMENTS; INFORMATION FROM ONLINE SOURCES**

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, 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 of 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.

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

## **UNDERWRITING**

The Underwriters have agreed, subject to certain conditions, to purchase the 2019 Bonds from the City at a purchase price of \$\_\_\_\_\_ (representing the principal amount of the 2019 Bonds, plus an original issue [net] reoffering premium on the 2019 Bonds of \$\_\_\_\_\_, and less Underwriters' discount on the 2019 Bonds of \$\_\_\_\_\_) and no accrued interest.

The Underwriters have agreed, subject to certain conditions, to purchase the 2019 Certificates from the City at a purchase price of \$\_\_\_\_\_ (representing the principal amount of the 2019 Certificates, plus an original issue [net] reoffering premium on the 2019 Certificates of \$\_\_\_\_\_, and less Underwriters' discount on the 2019 Certificates of \$\_\_\_\_\_) and no accrued interest.

The Underwriters have agreed, subject to certain conditions, to purchase the 2019 Notes from the City at a purchase price of \$\_\_\_\_\_ (representing the principal amount of the 2019 Notes, plus an original issue [net] reoffering premium on the 2019 Notes of \$\_\_\_\_\_, and less Underwriters' discount on the 2019 Notes of \$\_\_\_\_\_) and no accrued interest.

The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the 2019 Obligations if any 2019 Obligations are purchased. The 2019 Obligations may be offered and sold to



certain dealers and others at prices lower than such public offering prices and such public prices may be changed from time to time by the Underwriters.

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

#### **CO-FINANCIAL ADVISORS**

FTN Financial Municipal Advisors and Hilltop Securities, Inc. (the “Co-Financial Advisors”) are employed by the City in connection with the issuance of the 2019 Obligations and, in such capacity, have assisted the City in the preparation of certain documents related thereto. The Co-Financial Advisors’ fee for services rendered with respect to the sale of the 2019 Obligations is contingent upon the issuance and delivery of the 2019 Obligations.

The Co-Financial Advisors have not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the City’s records and from other sources which are believed to be reliable, including financial records of the City and other entities which may be subject to interpretation. No guarantee is made as to the accuracy or completeness of any such information. No person, therefore, is entitled to rely upon the participation of the Co-Financial Advisors as an implicit or explicit expression of opinions as to the completeness and accuracy of the information contained in this Official Statement.

The Co-Financial Advisors have reviewed the information in the Official Statement in accordance with their 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 Co-Financial Advisors do not guarantee the accuracy or completeness of such information.

#### **CERTIFICATION OF THE OFFICIAL STATEMENT**

At the time of payment for and delivery of the 2019 Obligations, the Underwriters will be furnished a certificate, executed by proper officers of the City, acting in their official capacity, to the substantial effect that to the best of their knowledge and belief (1) the descriptions and statements of or pertaining to the City contained in this Official Statement, and any addenda, supplement, or amendment thereto, for the 2019 Obligations, on the date of sale of the 2019 Obligations and on the date of the initial delivery of the 2019 Obligations, were and are true and correct in all material respects; (2) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (3) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (4) there has been no material adverse change in the financial condition of the City, since the date of the last financial statements of the City disclosed in APPENDIX C hereto.

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### AUTHORIZATION OF THE OFFICIAL STATEMENT

In the Ordinances, this Official Statement was approved as to form and content and the use thereof in the offering of the 2019 Obligations was authorized, ratified, and approved by an authorized City official on their date of sale. The Underwriters will be furnished, upon request, at the time of payment for and the delivery of the 2019 Obligations, a certified copy of such approval, duly executed by the proper officials of the City.

This Official Statement has been approved by the City Council for distribution in accordance with the provisions of the Rule.

/s/  
\_\_\_\_\_  
Mayor, City of San Antonio, Texas

ATTEST:

/s/  
\_\_\_\_\_  
City Clerk, City of San Antonio, Texas

\* \* \*

# SCHEDULE I

## Schedule of Refunded Obligations

<b>Refunded Obligations</b>	<b>Maturity Date</b>	<b>Interest Rate (%)</b>	<b>Par Amount (\$)</b>	<b>Call Date (August 1)</b>	<b>Call Price (%)</b>
City of San Antonio, Texas General Improvement Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds)	2021	4.614	6,560,000	2020	100
	2022	4.764	6,755,000	2020	100
	2023	4.914	7,940,000	2020	100
	2024	5.064	7,215,000	2020	100
	2025	5.164	7,450,000	2020	100
	2026	5.314	7,700,000	2020	100
	2027	5.488	7,965,000	2020	100
	2028	5.688	8,250,000	2020	100
	2029	5.838	8,550,000	2020	100
	2030	5.938	8,875,000	2020	100
	2031	5.988	9,220,000	2020	100
	2032	6.018	9,575,000	2020	100
	2033	6.038	9,945,000	2020	100
	2034	6.038	10,335,000	2020	100
	2035	6.038	10,740,000	2020	100
	2036	6.038	11,160,000	2020	100
	2037	6.038	11,595,000	2020	100
	2038	6.038	12,050,000	2020	100
	2039	6.038	12,520,000	2020	100
	2040	6.038	13,015,000	2020	100

\* Preliminary, subject to change.

## **APPENDIX A**

### **City of San Antonio, Texas General Demographic and Economic Information**

## **APPENDIX B**

### **Forms of Opinions of Co-Bond Counsel**

## **APPENDIX C**

### **Selected Portions of the City's Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2018**