

Texas Water Development Board

Application This financial application is intended to use funds for the purpose of acquiring 3,000 ac-ft of surface water rights from Hidalgo County Irrigation District No. 1

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Legal Authority

The legal authority under which the applicant was created and operates.: HOME_RULE

General Information

County: Hidalgo

Name of Entity: McAllen

System Contact Physical Address

Address 1: 1300 W Houston

Address 2:

City: McAllen

State: TX

Zip: 78505-0220

Phone: (956) 681-1770

Fax: (956) 681-1779

Website: www.mcallen.net

System Contact Mailing Address

Address 1:

Address 2: P.O. Box 220

City: McAllen

State: TX

Zip: 78505-0220

Description

Brief description of the project: This financial application is intended to use funds for the purpose of acquiring 3,000 ac-ft of surface water rights from Hidalgo County Irrigation District No. 1

Officers/Members

Applicant's Officers and Members

Jim Darling

Mayor

Javier Villabolos

City Commissioner

Joaquin "J.J." Zamora
City Commissioner

Omar Quintanilla
City Commissioner

Aida Ramirez
City Commissioner

John J. Ingram
City Commissioner

Veronica Whitacre
City Commissioner

Charles Amos
MPU Board Member

Tony Aguirre
MPU Board Member

Ernest Williams
MPU Board Member

Albert Cardenas
MPU Board Member

Jim Darling
Mayor/MPU Ex-Officio Member

Primary Contact

Name: Carlos Gonzalez
Title: Utility Engineer
Address 1: P.O. Box 220
Address 2:
City: McAllen
State: TX

Zip: 78501-0000

Phone: (956) 681-1777

Fax: (956) 681-1779

Email: cagonzalez@mcallen.net

Applicant's Contributors

Contributor Type	Firm Name	Contact Name	Address	Phone	Fax	Email
Applicant Engineer	McAllen Public Utility	Carlos Gonzalez	1300 West Houston Avenue McAllen TX 78501-0000	956-681-1777	956-681-1779	cagonzalezl@mcallen.net
Bond Counsel	McCall Parkhurst & Horton	Noel Valdez	700 N. St. Mary's Street, Suite 1525 San Antonio TX 78205-0000	210-225-2800	210-225-2984	nvaldez@mphlegal.com
Financial Advisor	Hilltop Securities	Anne Burger Entekin	70 NE Loop 410, Suite 710 San Antonio TX 78216-0000	210-308-2200	210-349-7585	Anne.BurgerEntekin@hilltopsecurities.com
Certified Public Accountant (or other appropriate rep)	McAllen Public Utility	Melba Carvajal	1300 West Houston Avenue McAllen TX 78501-0000	956-681-1632	956-681-1639	mcarvajal@mcallen.net
Legal Counsel	City of McAllen	Kevin Pagan	1300 West Houston Avenue McAllen TX 78501-0000	956-681-1095	956-681-1099	kpagan@Mcallen.net
Any other Contributor representing the Applicant before the board	City of McAllen	Susan Lozano	1300 West Houston Avenue McAllen TX 78501-0000	956-681-1081	956-681-1084	slozano@mcallen.net
Any other Contributor representing the Applicant before the board	McAllen Public Utility	JJ Rodriguez	1300 West Houston Avenue McAllen TX 78501-0000	956-681-1637	956-681-1639	jj.rodriguez@mcallen.net
Any other Contributor representing the Applicant before the board	McAllen Public Utility	Mark Vega	1300 West Houston Avenue McAllen TX 78501-0000	956-681-1630	956-681-1639	mvega@mcallen.net
Any other Contributor representing the Applicant before the board	Hilltop Securities Inc.	Mary Ann Gennero	70 NE Loop 410, Suite 710 San Antonio TX 78216-0000	210-308-2201	210-349-7585	Maryann.Gennero@hilltopsecurities.com

Contributor Contracts (documents follow this page)

985642

Utility Engineer

985644

Financial Advisory

1027900

Financial Advisory

985643

Retained Bond Counsel

985645

Finance Director

985647

Finance Director

1007856

Asst. General Manager

1007857

General Manager

985646

City Attorney

Attachment Corresponding to Section A5a

The Following Application Contributors are considered "in-house" Staff for the City of McAllen:

- 1) Carlos Gonzalez, P.E., Utility Engineer, McAllen Public Utility
- 2) Melba Carvajal, Director of Finance for Utilities, McAllen Public Utility
- 3) Mark Vega, P.E., General Manager, McAllen Public Utility
- 4) Kevin Pagan, City Attorney, City of McAllen

The following Staff are not employees of the City of McAllen but have been contractually retained:

- 1) Anne Burger Entrekin, Regional Managing Director, First Southwest, A Division of Hilltop Securities
- 2) Noel Valdez, Bond Counsel, Parkhurst & Horton

FINANCIAL ADVISORY AGREEMENT

This Financial Advisory Agreement (the "Agreement") is made and entered into by and between City of McAllen, Texas ("Issuer") and First Southwest Company ("FSC") effective as of the date executed by the Issuer as set forth on the signature page hereof.

WITNESSETH:

WHEREAS, the Issuer will have under consideration from time to time the authorization and issuance of indebtedness in amounts and forms which cannot presently be determined and, in connection with the authorization, sale, issuance and delivery of such indebtedness, Issuer desires to retain an independent financial advisor; and

WHEREAS, the Issuer desires to obtain the professional services of FSC to advise the Issuer regarding the issuance and sale of certain evidences of indebtedness or debt obligations that may be authorized and issued or otherwise created or assumed by the Issuer (hereinafter referred to collectively as the "Debt Instruments") from time to time during the period in which this Agreement shall be effective; and

WHEREAS, FSC is willing to provide its professional services and its facilities as financial advisor in connection with all programs of financing as may be considered and authorized by Issuer during the period in which this Agreement shall be effective.

NOW, THEREFORE, the Issuer and FSC, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, do hereby agree as follows:

SECTION I* DESCRIPTION OF SERVICES

Upon the request of an authorized representative of the Issuer, FSC agrees to perform the financial advisory services stated in the following provisions of this Section I; and for having rendered such services, the Issuer agrees to pay to FSC the compensation as provided in Section V hereof.

A. Financial Planning. At the direction of Issuer, FSC shall:

1. Survey and Analysis. Conduct a survey of the financial resources of the Issuer to determine the extent of its capacity to authorize, issue and service any Debt Instruments

contemplated. This survey will include an analysis of any existing debt structure as compared with the existing and projected sources of revenues which may be pledged to secure payment of debt service and, where appropriate, will include a study of the trend of the assessed valuation, taxing power and present and future taxing requirements of the Issuer. In the event revenues of existing or projected facilities operated by the Issuer are to be pledged to repayment of the Debt Instruments then under consideration, the survey will take into account any outstanding indebtedness payable from the revenues thereof, additional revenues to be available from any proposed rate increases and additional revenues, as projected by consulting engineers employed by the Issuer, resulting from improvements to be financed by the Debt Instruments under consideration.

2. Future Financings. Consider and analyze future financing needs as projected by the Issuer's staff and consulting engineers or other experts, if any, employed by the Issuer.

3. Recommendations for Debt Instruments. On the basis of the information developed by the survey described above, and other information and experience available, submit to the Issuer recommendations regarding the Debt Instruments under consideration, including such elements as the date of issue, interest payment dates, schedule of principal maturities, options of prior payment, security provisions, and such other provisions as may be appropriate in order to make the issue attractive to investors while achieving the objectives of the Issuer. All recommendations will be consistent with the goal of designing the Debt Instruments to be sold on terms which are advantageous to the Issuer, including the lowest interest cost consistent with all other considerations.

4. Market Information. Advise the Issuer of our interpretation of current bond market conditions, other related forthcoming bond issues and general information, with economic data, which might normally be expected to influence interest rates or bidding conditions so that the date of sale of the Debt Instruments may be set at a favorable time.

5. Elections. In the event it is necessary to hold an election to authorize the Debt Instruments then under consideration, FSC will assist in coordinating the assembly of such data as may be required for the preparation of necessary petitions, orders, resolutions, ordinances, notices and certificates in connection with the election, including assistance in the transmission of such data to a firm of municipal bond attorneys ("Bond Counsel") retained by the Issuer.

B. Debt Management and Financial Implementation. At the direction of Issuer, FSC shall:

1. Method of Sale. Evaluate the particular financing being contemplated, giving consideration to the complexity, market acceptance, rating, size and structure in order to make a recommendation as to an appropriate method of sale, and:

a. If the Debt Instruments are to be sold by an advertised competitive sale, FSC will:

(1) Supervise the sale of the Debt Instruments, reserving the right, alone or in conjunction with others, to submit a bid for any Debt Instruments issued under this Agreement which the Issuer advertises for competitive bids; however, in keeping with the provisions of Rule G-23 of the Municipal Securities Rulemaking Board, FSC will request and obtain written consent to bid prior to submitting a bid, in any instance wherein FSC elects to bid, for any installment of such Debt Instruments;

(2) Disseminate information to prospective bidders, organize such informational meetings as may be necessary, and facilitate prospective bidders' efforts in making timely submission of proper bids;

(3) Assist the staff of the Issuer in coordinating the receipt of bids, the safekeeping of good faith checks and the tabulation and comparison of submitted bids; and

(4) Advise the Issuer regarding the best bid and provide advice regarding acceptance or rejection of the bids.

b. If the Debt Instruments are to be sold by negotiated sale, FSC will:

(1) Recommend for Issuer's final approval and acceptance one or more investment banking firms as managers of an underwriting syndicate for the purpose of negotiating the purchase of the Debt Instruments.

(2) Cooperate with and assist any selected managing underwriter and their counsel in connection with their efforts to prepare any Official Statement or Offering Memorandum. FSC will cooperate with and assist the underwriters in the preparation of a bond purchase contract, an underwriters agreement and other related documents. The costs incurred in such efforts, including the printing of the documents, will be paid in accordance with the terms of the Issuer's agreement

with the underwriters, but shall not be or become an obligation of FSC, except to the extent specifically provided otherwise in this Agreement or assumed in writing by FSC.

(3) Assist the staff of the Issuer in the safekeeping of any good faith checks, to the extent there are any such, and provide a cost comparison, for both expenses and interest which are suggested by the underwriters, to the then current market.

(4) Advise the Issuer as to the fairness of the price offered by the underwriters.

2. Offering Documents. Coordinate the preparation of the notice of sale and bidding instructions, official statement, official bid form and such other documents as may be required and submit all such documents to the Issuer for examination, approval and certification. After such examination, approval and certification, FSC shall provide the Issuer with a supply of all such documents sufficient to its needs and distribute by mail or, where appropriate, by electronic delivery, sets of the same to prospective purchasers of the Debt Instruments. Also, FSC shall provide copies of the final Official Statement to the purchaser of the Debt Instruments in accordance with the Notice of Sale and Bidding Instructions.

3. Credit Ratings. Make recommendations to the Issuer as to the advisability of obtaining a credit rating, or ratings, for the Debt Instruments and, when directed by the Issuer, coordinate the preparation of such information as may be appropriate for submission to the rating agency, or agencies. In those cases where the advisability of personal presentation of information to the rating agency, or agencies, may be indicated, FSC will arrange for such personal presentations, utilizing such composition of representatives from the Issuer as may be finally approved or directed by the Issuer.

4. Trustee, Paying Agent, Registrar. Upon request, counsel with the Issuer in the selection of a Trustee and/or Paying Agent/Registrar for the Debt Instruments, and assist in the negotiation of agreements pertinent to these services and the fees incident thereto.

5. Financial Publications. When appropriate, advise financial publications of the forthcoming sale of the Debt Instruments and provide them with all pertinent information.

6. Consultants. After consulting with and receiving directions from the Issuer, arrange for such reports and opinions of recognized independent consultants as may be appropriate for the successful marketing of the Debt Instruments.

7. Auditors. In the event formal verification by an independent auditor of any calculations incident to the Debt Instruments is required, make arrangements for such services.
8. Issuer Meetings. Attend meetings of the governing body of the Issuer, its staff, representatives or committees as requested at all times when FSC may be of assistance or service and the subject of financing is to be discussed.
9. Printing. To the extent authorized by the Issuer, coordinate all work incident to printing of the offering documents and the Debt Instruments.
10. Bond Counsel. Maintain liaison with Bond Counsel in the preparation of all legal documents pertaining to the authorization, sale and issuance of the Debt Instruments.
11. Changes in Laws. Provide to the Issuer copies of proposed or enacted changes in federal and state laws, rules and regulations having, or expected to have, a significant effect on the municipal bond market of which FSC becomes aware in the ordinary course of its business, it being understood that FSC does not and may not act as an attorney for, or provide legal advice or services to, the Issuer.
12. Delivery of Debt Instruments. As soon as a bid for the Debt Instruments is accepted by the Issuer, coordinate the efforts of all concerned to the end that the Debt Instruments may be delivered and paid for as expeditiously as possible and assist the Issuer in the preparation or verification of final closing figures incident to the delivery of the Debt Instruments.
13. Debt Service Schedule; Authorizing Resolution. After the closing of the sale and delivery of the Debt Instruments, deliver to the Issuer a schedule of annual debt service requirements for the Debt Instruments and, in coordination with Bond Counsel, assure that the paying agent/registrars and/or trustee has been provided with a copy of the authorizing ordinance, order or resolution.

SECTION II OTHER AVAILABLE SERVICES

In addition to the services set forth and described in Section I herein above, FSC agrees to make available to Issuer the following services, when so requested by the Issuer and subject to the agreement by Issuer and FSC regarding the compensation, if any, to be paid for such services, it being understood and

agreed that the services set forth in this Section II shall require further agreement as to the compensation to be received by FSC for such services:

1. Investment of Funds. From time to time, as an incident to the other services provided hereunder as financial advisor, FSC may purchase such investments as may be directed and authorized by Issuer to be purchased, it being understood that FSC will be compensated in the normal and customary manner for each such transaction. In any instance wherein FSC may become entitled to receive fees or other compensation in any form from a third party with respect to these investment activities on behalf of Issuer, we will disclose to Issuer the nature and, to the extent such is known, the amount of any such compensation so that Issuer may consider the information in making its investment decision. It is understood and agreed that FSC is a duly licensed broker/dealer and is affiliated with First Southwest Asset Management, Inc. ("FSAMI"), a duly registered investment advisor. Issuer may, from time to time, utilize the broker/dealer services of FSC and/or the investment advisory services of FSAMI with respect to matters which do not involve or affect the financial advisory services referenced in this Agreement. The terms and conditions of the engagement of FSC and/or FSAMI to provide such services shall be determined by mutual agreement at the time such services are requested.
2. Exercising Calls and Refunding. Provide advice and assistance with regard to exercising any call and/or refunding of any outstanding Debt Instruments.
3. Capital Improvements Programs. Provide advice and assistance in the development of any capital improvements programs of the Issuer.
4. Long-Range Planning. Provide advice and assistance in the development of other long-range financing plans of the Issuer.
5. Post-Sale Services. Subsequent to the sale and delivery of Debt Instruments, review the transaction and transaction documentation with legal counsel for the Issuer, Bond Counsel, auditors and other experts and consultants retained by the Issuer and assist in developing appropriate responses to legal processes, audit procedures, inquiries, internal reviews and similar matters.

SECTION III TERM OF AGREEMENT

This Agreement shall become effective as of the date executed by the Issuer as set forth on the signature page hereof and, unless terminated by either party pursuant to Section IV of this Agreement, shall remain in effect thereafter for a period of five (5) years from such date. Unless FSC or Issuer shall

notify the other party in writing at least thirty (30) days in advance of the applicable anniversary date that this Agreement will not be renewed, this Agreement will be automatically renewed on the fifth anniversary of the date hereof for an additional one (1) year period and thereafter will be automatically renewed on each anniversary date for successive one (1) year periods.

SECTION IV TERMINATION

This Agreement may be terminated with or without cause by the Issuer or FSC upon the giving of at least thirty (30) days' prior written notice to the other party of its intention to terminate, specifying in such notice the effective date of such termination. In the event of such termination, it is understood and agreed that only the amounts due FSC for services provided and expenses incurred to the date of termination will be due and payable. No penalty will be assessed for termination of this Agreement.

SECTION V COMPENSATION AND EXPENSE REIMBURSEMENT

The fees due to FSC for the services set forth and described in Section I of this Agreement with respect to each issuance of Debt Instruments during the term of this Agreement shall be calculated in accordance with the schedule set forth on Appendix A attached hereto. Unless specifically provided otherwise on Appendix A or in a separate written agreement between Issuer and FSC, such fees, together with any other fees as may have been mutually agreed upon and all expenses for which FSC is entitled to reimbursement, shall become due and payable concurrently with the delivery of the Debt Instruments to the purchaser.

SECTION VI MISCELLANEOUS

1. Choice of Law. This Agreement shall be construed and given effect in accordance with the laws of the State of Texas.

2. Binding Effect; Assignment. This Agreement shall be binding upon and inure to the benefit of the Issuer and FSC, their respective successors and assigns; provided however, neither party hereto may assign or transfer any of its rights or obligations hereunder without the prior written consent of the other party.

3. Entire Agreement. This instrument contains the entire agreement between the parties relating to the rights herein granted and obligations herein assumed. Any oral or written representations or modifications concerning this Agreement shall be of no force or effect except for a subsequent modification in writing signed by all parties hereto.

FIRST SOUTHWEST COMPANY

By: Hill A. Feinberg
Hill A. Feinberg, Chairman and
Chief Executive Officer

By: Anne Burger Entekin
Anne Burger Entekin
Senior Vice President

CITY OF MCALLEN, TEXAS

By: Mike R. Perry
Title: City Manager
Date: 4/1/05

ATTEST:

Annette McQuinn
City Secretary

APPENDIX A

The fees due FSC will not exceed those contained in our customary fee schedule as listed below.

Base Fee - Any Issue									\$ 3,750
Plus \$ 6.50 per \$1,000 up to \$ 500,000					or			\$ 7,000 for \$ 500,000	Bonds
Plus 6.00 per \$1,000 next 500,000					or			10,000 for 1,000,000	Bonds
Plus 3.50 per \$1,000 next 1,500,000					or			15,250 for 2,500,000	Bonds
Plus 2.50 per \$1,000 next 2,500,000					or			21,500 for 5,000,000	Bonds
Plus 2.00 per \$1,000 next 5,000,000					or			31,500 for 10,000,000	Bonds
Plus 1.00 per \$1,000 next 10,000,000					or			41,500 for 20,000,000	Bonds
Plus 0.75 per \$1,000 over 20,000,000									

Fees for Revenue Issues shall be in the amount shown plus a 20% additional charge.

For any issue of Advance Refunding Bonds and/or other Debt Instruments involving Escrow Agreements, it is understood and agreed that our fee will be the fee schedule set out above plus 10%.

The charges for ancillary services, including computer structuring and official statement printing, shall be levied only for those services which are reasonably necessary in completing the transaction and which are reasonable in amount, unless such charges were incurred at the specific direction of the Issuer.

The payment of charges for financial advisory services described in Section I of the foregoing Agreement shall be contingent upon the delivery of bonds and shall be due at the time that bonds are delivered. The payment of charges for services described in Section II of the foregoing Agreement shall be due and payable in accordance with the mutual agreement therefor between FSC and Issuer.

The Issuer shall be responsible for the following expenses, if and when applicable, whether they are charged to the Issuer directly as expenses or charged to the Issuer by FSC as reimbursable expenses:

- Bond counsel
- Bond printing
- Bond ratings
- Computer structuring
- Credit enhancement
- CPA fees for refunding
- Official statement preparation and printing
- Paying agent/registrar/trustee
- Travel expenses
- Underwriter and underwriters counsel
- Miscellaneous, including copy, delivery, and phone charges

The payment of reimbursable expenses that FSC has assumed on behalf of the Issuer shall NOT be contingent upon the delivery of bonds and shall be due at the time that services are rendered and payable upon receipt of an invoice therefor submitted by FSC.

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WHEREAS, the Issuer will have under consideration from time to time the authorization and issuance of indebtedness in amounts and forms which cannot presently be determined and, in connection with the authorization, sale, issuance and delivery of such indebtedness, Issuer desires to retain an independent financial advisor; and

WHEREAS, the Issuer desires to obtain the professional services of FSC to advise the Issuer regarding the issuance and sale of certain evidences of indebtedness or debt obligations that may be authorized and issued or otherwise created or assumed by the Issuer (hereinafter referred to collectively as the "Debt Instruments") from time to time during the period in which this Agreement shall be effective; and

WHEREAS, FSC is willing to provide its professional services and its facilities as financial advisor in connection with all programs of financing as may be considered and authorized by Issuer during the period in which this Agreement shall be effective.

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B. Debt Management and Financial Implementation. At the direction of Issuer, FSC shall:

1. Method of Sale. Evaluate the particular financing being contemplated, giving consideration to the complexity, market acceptance, rating, size and structure in order to make a recommendation as to an appropriate method of sale, and:

a. If the Debt Instruments are to be sold by an advertised competitive sale, FSC will:

(1) Supervise the sale of the Debt Instruments, reserving the right, alone or in conjunction with others, to submit a bid for any Debt Instruments issued under this Agreement which the Issuer advertises for competitive bids; however, in keeping with the provisions of Rule G-23 of the Municipal Securities Rulemaking Board, FSC will request and obtain written consent to bid prior to submitting a bid, in any instance wherein FSC elects to bid, for any installment of such Debt Instruments;

(2) Disseminate information to prospective bidders, organize such informational meetings as may be necessary, and facilitate prospective bidders' efforts in making timely submission of proper bids;

(3) Assist the staff of the Issuer in coordinating the receipt of bids, the safekeeping of good faith checks and the tabulation and comparison of submitted bids; and

(4) Advise the Issuer regarding the best bid and provide advice regarding acceptance or rejection of the bids.

b. If the Debt Instruments are to be sold by negotiated sale, FSC will:

(1) Recommend for Issuer's final approval and acceptance one or more investment banking firms as managers of an underwriting syndicate for the purpose of negotiating the purchase of the Debt Instruments.

(2) Cooperate with and assist any selected managing underwriter and their counsel in connection with their efforts to prepare any Official Statement or Offering Memorandum. FSC will cooperate with and assist the underwriters in the preparation of a bond purchase contract, an underwriters agreement and other related documents. The costs incurred in such efforts, including the printing of the documents, will be paid in accordance with the terms of the Issuer's agreement

with the underwriters, but shall not be or become an obligation of FSC, except to the extent specifically provided otherwise in this Agreement or assumed in writing by FSC.

(3) Assist the staff of the Issuer in the safekeeping of any good faith checks, to the extent there are any such, and provide a cost comparison, for both expenses and interest which are suggested by the underwriters, to the then current market.

(4) Advise the Issuer as to the fairness of the price offered by the underwriters.

2. Offering Documents. Coordinate the preparation of the notice of sale and bidding instructions, official statement, official bid form and such other documents as may be required and submit all such documents to the Issuer for examination, approval and certification. After such examination, approval and certification, FSC shall provide the Issuer with a supply of all such documents sufficient to its needs and distribute by mail or, where appropriate, by electronic delivery, sets of the same to prospective purchasers of the Debt Instruments. Also, FSC shall provide copies of the final Official Statement to the purchaser of the Debt Instruments in accordance with the Notice of Sale and Bidding Instructions.

3. Credit Ratings. Make recommendations to the Issuer as to the advisability of obtaining a credit rating, or ratings, for the Debt Instruments and, when directed by the Issuer, coordinate the preparation of such information as may be appropriate for submission to the rating agency, or agencies. In those cases where the advisability of personal presentation of information to the rating agency, or agencies, may be indicated, FSC will arrange for such personal presentations, utilizing such composition of representatives from the Issuer as may be finally approved or directed by the Issuer.

4. Trustee, Paying Agent, Registrar. Upon request, counsel with the Issuer in the selection of a Trustee and/or Paying Agent/Registrar for the Debt Instruments, and assist in the negotiation of agreements pertinent to these services and the fees incident thereto.

5. Financial Publications. When appropriate, advise financial publications of the forthcoming sale of the Debt Instruments and provide them with all pertinent information.

6. Consultants. After consulting with and receiving directions from the Issuer, arrange for such reports and opinions of recognized independent consultants as may be appropriate for the successful marketing of the Debt Instruments.

7. Auditors. In the event formal verification by an independent auditor of any calculations incident to the Debt Instruments is required, make arrangements for such services.
8. Issuer Meetings. Attend meetings of the governing body of the Issuer, its staff, representatives or committees as requested at all times when FSC may be of assistance or service and the subject of financing is to be discussed.
9. Printing. To the extent authorized by the Issuer, coordinate all work incident to printing of the offering documents and the Debt Instruments.
10. Bond Counsel. Maintain liaison with Bond Counsel in the preparation of all legal documents pertaining to the authorization, sale and issuance of the Debt Instruments.
11. Changes in Laws. Provide to the Issuer copies of proposed or enacted changes in federal and state laws, rules and regulations having, or expected to have, a significant effect on the municipal bond market of which FSC becomes aware in the ordinary course of its business, it being understood that FSC does not and may not act as an attorney for, or provide legal advice or services to, the Issuer.
12. Delivery of Debt Instruments. As soon as a bid for the Debt Instruments is accepted by the Issuer, coordinate the efforts of all concerned to the end that the Debt Instruments may be delivered and paid for as expeditiously as possible and assist the Issuer in the preparation or verification of final closing figures incident to the delivery of the Debt Instruments.
13. Debt Service Schedule; Authorizing Resolution. After the closing of the sale and delivery of the Debt Instruments, deliver to the Issuer a schedule of annual debt service requirements for the Debt Instruments and, in coordination with Bond Counsel, assure that the paying agent/registrars and/or trustee has been provided with a copy of the authorizing ordinance, order or resolution.

SECTION II OTHER AVAILABLE SERVICES

In addition to the services set forth and described in Section I herein above, FSC agrees to make available to Issuer the following services, when so requested by the Issuer and subject to the agreement by Issuer and FSC regarding the compensation, if any, to be paid for such services, it being understood and

agreed that the services set forth in this Section II shall require further agreement as to the compensation to be received by FSC for such services:

1. Investment of Funds. From time to time, as an incident to the other services provided hereunder as financial advisor, FSC may purchase such investments as may be directed and authorized by Issuer to be purchased, it being understood that FSC will be compensated in the normal and customary manner for each such transaction. In any instance wherein FSC may become entitled to receive fees or other compensation in any form from a third party with respect to these investment activities on behalf of Issuer, we will disclose to Issuer the nature and, to the extent such is known, the amount of any such compensation so that Issuer may consider the information in making its investment decision. It is understood and agreed that FSC is a duly licensed broker/dealer and is affiliated with First Southwest Asset Management, Inc. ("FSAMI"), a duly registered investment advisor. Issuer may, from time to time, utilize the broker/dealer services of FSC and/or the investment advisory services of FSAMI with respect to matters which do not involve or affect the financial advisory services referenced in this Agreement. The terms and conditions of the engagement of FSC and/or FSAMI to provide such services shall be determined by mutual agreement at the time such services are requested.
2. Exercising Calls and Refunding. Provide advice and assistance with regard to exercising any call and/or refunding of any outstanding Debt Instruments.
3. Capital Improvements Programs. Provide advice and assistance in the development of any capital improvements programs of the Issuer.
4. Long-Range Planning. Provide advice and assistance in the development of other long-range financing plans of the Issuer.
5. Post-Sale Services. Subsequent to the sale and delivery of Debt Instruments, review the transaction and transaction documentation with legal counsel for the Issuer, Bond Counsel, auditors and other experts and consultants retained by the Issuer and assist in developing appropriate responses to legal processes, audit procedures, inquiries, internal reviews and similar matters.

SECTION III TERM OF AGREEMENT

This Agreement shall become effective as of the date executed by the Issuer as set forth on the signature page hereof and, unless terminated by either party pursuant to Section IV of this Agreement, shall remain in effect thereafter for a period of five (5) years from such date. Unless FSC or Issuer shall

notify the other party in writing at least thirty (30) days in advance of the applicable anniversary date that this Agreement will not be renewed, this Agreement will be automatically renewed on the fifth anniversary of the date hereof for an additional one (1) year period and thereafter will be automatically renewed on each anniversary date for successive one (1) year periods.

SECTION IV TERMINATION

This Agreement may be terminated with or without cause by the Issuer or FSC upon the giving of at least thirty (30) days' prior written notice to the other party of its intention to terminate, specifying in such notice the effective date of such termination. In the event of such termination, it is understood and agreed that only the amounts due FSC for services provided and expenses incurred to the date of termination will be due and payable. No penalty will be assessed for termination of this Agreement.

SECTION V COMPENSATION AND EXPENSE REIMBURSEMENT

The fees due to FSC for the services set forth and described in Section I of this Agreement with respect to each issuance of Debt Instruments during the term of this Agreement shall be calculated in accordance with the schedule set forth on Appendix A attached hereto. Unless specifically provided otherwise on Appendix A or in a separate written agreement between Issuer and FSC, such fees, together with any other fees as may have been mutually agreed upon and all expenses for which FSC is entitled to reimbursement, shall become due and payable concurrently with the delivery of the Debt Instruments to the purchaser.

SECTION VI MISCELLANEOUS

1. Choice of Law. This Agreement shall be construed and given effect in accordance with the laws of the State of Texas.

2. Binding Effect; Assignment. This Agreement shall be binding upon and inure to the benefit of the Issuer and FSC, their respective successors and assigns; provided however, neither party hereto may assign or transfer any of its rights or obligations hereunder without the prior written consent of the other party.

3. Entire Agreement. This instrument contains the entire agreement between the parties relating to the rights herein granted and obligations herein assumed. Any oral or written representations or modifications concerning this Agreement shall be of no force or effect except for a subsequent modification in writing signed by all parties hereto.

FIRST SOUTHWEST COMPANY

By: Hill A. Feinberg
Hill A. Feinberg, Chairman and
Chief Executive Officer

By: Anne Burger Entekin
Anne Burger Entekin
Senior Vice President

CITY OF MCALLEN, TEXAS

By: Mike R. Perry
Title: City Manager
Date: 4/1/05

ATTEST:

Annette McQuinn
City Secretary

APPENDIX A

The fees due FSC will not exceed those contained in our customary fee schedule as listed below.

Base Fee - Any Issue									\$ 3,750
Plus \$ 6.50 per \$1,000 up to \$ 500,000					or			\$ 7,000 for \$ 500,000	Bonds
Plus 6.00 per \$1,000 next 500,000					or			10,000 for 1,000,000	Bonds
Plus 3.50 per \$1,000 next 1,500,000					or			15,250 for 2,500,000	Bonds
Plus 2.50 per \$1,000 next 2,500,000					or			21,500 for 5,000,000	Bonds
Plus 2.00 per \$1,000 next 5,000,000					or			31,500 for 10,000,000	Bonds
Plus 1.00 per \$1,000 next 10,000,000					or			41,500 for 20,000,000	Bonds
Plus 0.75 per \$1,000 over 20,000,000									

Fees for Revenue Issues shall be in the amount shown plus a 20% additional charge.

For any issue of Advance Refunding Bonds and/or other Debt Instruments involving Escrow Agreements, it is understood and agreed that our fee will be the fee schedule set out above plus 10%.

The charges for ancillary services, including computer structuring and official statement printing, shall be levied only for those services which are reasonably necessary in completing the transaction and which are reasonable in amount, unless such charges were incurred at the specific direction of the Issuer.

The payment of charges for financial advisory services described in Section I of the foregoing Agreement shall be contingent upon the delivery of bonds and shall be due at the time that bonds are delivered. The payment of charges for services described in Section II of the foregoing Agreement shall be due and payable in accordance with the mutual agreement therefor between FSC and Issuer.

The Issuer shall be responsible for the following expenses, if and when applicable, whether they are charged to the Issuer directly as expenses or charged to the Issuer by FSC as reimbursable expenses:

- Bond counsel
- Bond printing
- Bond ratings
- Computer structuring
- Credit enhancement
- CPA fees for refunding
- Official statement preparation and printing
- Paying agent/registrar/trustee
- Travel expenses
- Underwriter and underwriters counsel
- Miscellaneous, including copy, delivery, and phone charges

The payment of reimbursable expenses that FSC has assumed on behalf of the Issuer shall NOT be contingent upon the delivery of bonds and shall be due at the time that services are rendered and payable upon receipt of an invoice therefor submitted by FSC.

Attachment Corresponding to Section A5a

The Following Application Contributors are considered "in-house" Staff for the City of McAllen:

- 1) Carlos Gonzalez, P.E., Utility Engineer, McAllen Public Utility
- 2) Melba Carvajal, Director of Finance for Utilities, McAllen Public Utility
- 3) Mark Vega, P.E., General Manager, McAllen Public Utility
- 4) Kevin Pagan, City Attorney, City of McAllen

The following Staff are not employees of the City of McAllen but have been contractually retained:

- 1) Anne Burger Entrekin, Regional Managing Director, First Southwest, A Division of Hilltop Securities
- 2) Noel Valdez, Bond Counsel, Parkhurst & Horton

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- 2) Noel Valdez, Bond Counsel, Parkhurst & Horton

A6 & A7

Counties

Hidalgo

Identify the Applicant's total service area population:: 160,000

Funding Program(s)

Funding Programs

SWIFT: \$6,900,000

Other Funding Sources

Other Funding Sources

Funding Source	Type of Funds (Loan, Grant, etc.)	Amount (\$)	Date Applied for Funding	Anticipated or Funding Secured Date

Other Funding Comments:

Funding_1 N/A

Funding & Project Type

Has this project received TWDB funding for any other project phases?: N

Requesting Funding for Planning: N

Requesting Funding for Acquisition: Y

Requesting Funding for Design: N

Requesting Funding for Construction: N

Is the project a water project?: Y

Is the project a wastewater project?: N

Is Applicant requesting funding to refinance existing debt?: N

DUNS:

Federal Awards information:

1. Did applicant receive over 80% of their revenue from Federal Awards last year?:
2. Did applicant receive over \$25 million in Federal Awards last year?:
3. Does the public have access to executive compensation information via SEC or IRS reports?:

Describe procedures for collecting monthly customer bills (include procedures for collection of delinquent accounts):

TWDB-0215 N/A

Contractors & Loan/Grant Participation Summary

Have you already solicited contractors?:

Have contracts already been awarded?:

Legal Information

Cite the legal authority under which the Applicant can issue the proposed debt including the authority to make a proposed pledge of revenues.: Chapter 1502, Texas Government Code. Pursuant to 1502.052 of the Texas Government Code, as amended, the principal of and interest on the bonds, will be payable from, and secured by a first lien on and pledge of the net revenues of the City's waterworks and sewer system.

What type of pledge will be used to repay the proposed debt?: SYSTEMS_REVENUE

Provide the full legal name of the security for the proposed debt issue(s): WATERWORKS AND SEWER SYSTEM REVENUE BONDS SERIES 2018(A, B OR C)

Describe the pledge being offered and any existing rate covenants.: Interest on and principal of the Bonds, together with other outstanding first lien revenue bonds, are payable from and secured by a first lien on and pledge of the Pledge Revenues, as defined by the Bond Ordinance (attached to this application) and which revenues include the Net Revenues of the City's Waterworks and Sewer System.

RESOLUTION NO 2018- 25

AUTHORIZING THE SUBMISSION OF AN APPLICATION REQUESTING FINANCIAL ASSISTANCE FROM THE TEXAS WATER DEVELOPMENT BOARD'S STATE WATER IMPLEMENTATION FUND (SWIFT) FOR ACQUISITION OF SURFACE WATER RIGHTS, AND DESIGNATING AN AUTHORIZED REPRESENTATIVE TO ACT ON BEHALF OF THE CITY OF MCALLEN AND MCALLEN PUBLIC UTILITY AND AUTHORIZING THE AUTHORIZED REPRESENTATIVE TO CARRY OUT THE IMPLEMENTATION OF THIS PROJECT

**STATE OF TEXAS
COUNTY OF HIDALGO
CITY OF MCALLEN**

WHEREAS the Texas Water Development Board makes funding available to municipal water authorities for water, wastewater and reuse projects intended to serve community residents and

WHEREAS the City of McAllen desires to proceed with the acquisition of 3,000 ac-ft of surface water rights from Hidalgo County Irrigation District # 1 for a total cost not to exceed \$6,900,000 and

WHEREAS the City of McAllen hereby finds and determines that there is a pressing need for acquisition of these additional water rights to allow City of McAllen to continue to sustain a growing population.

NOW THEREFORE BE IT RESOLVED BY THE BOARD OF COMMISSIONERS OF THE CITY OF MCALLEN TEXAS THAT

1. McAllen Public Utility is hereby authorized and instructed to develop and submit an application to the Texas Water Development Board seeking funds in the amount of \$ 6,900,000 to provide for the acquisition of 3,000 ac-ft of surface water rights from Hidalgo County Irrigation District # 1 and.
2. That Marco A. Vega, P.E., General Manager of the McAllen Public Utility be and is hereby designated the authorized representative of the City of McAllen and McAllen Public Utility for the purposes of furnishing such information and executing such documents as may be required in connection with the preparation and filing of such application for financial assistance and the rules of the Texas Water Development Board and in all matters pertaining to this application including appearing before the Texas Water Development Board and submitting other documentation as may be required by the Executive Administrator or the Texas Water Development Board.
3. That the following firms and/or individuals are hereby authorized and directed to aid and assist in the preparation and submission of the application and appear on behalf of and represent the City of McAllen before any hearing held by the Texas Water Development Board on such application to wit
 - a. Financial Advisor: Anne Burger Entrekin, Hilltop Securities
 - b. MPU Engineer: Carlos Gonzalez, P.E., Utility Engineer
 - c. MPU Financial: Melba Carvajal, Director of Finance for Utilities
 - d. Bond Counsel: Noel Valdez, McCall, Parkhurst & Horton L.L.P.
4. Upon the approval of this application the General Manager of the McAllen Public Utility is

authorized to execute all legal documents necessary and to perform any acts necessary to implement the project

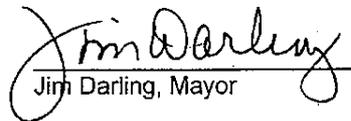
CONSIDERED PASSED AND APPROVED this 26th day of March, 2018 at a Joint Meeting of the Board of Commissioners of the City of McAllen and McAllen Public Utility at which a quorum was present and which was held in accordance with Chapter 551 Texas Government Code.

SIGNED this 29th day of March, 2018.

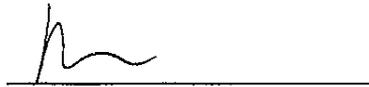
Attest

City of McAllen


Perla Lara, TRMC/CMC, CPM
City Secretary


Jim Darling, Mayor

Approved as to form:


Kevin D Pagan, City Attorney



RESOLUTION NO 2018- 01

AUTHORIZING THE SUBMISSION OF AN APPLICATION REQUESTING FINANCIAL ASSISTANCE FROM THE TEXAS WATER DEVELOPMENT BOARD'S STATE WATER IMPLEMENTATION FUND (SWIFT) FOR ACQUISITION OF SURFACE WATER RIGHTS, AND DESIGNATING AN AUTHORIZED REPRESENTATIVE TO ACT ON BEHALF OF THE CITY OF MCALLEN AND MCALLEN PUBLIC UTILITY AND AUTHORIZING THE AUTHORIZED REPRESENTATIVE TO CARRY OUT THE IMPLEMENTATION OF THIS PROJECT

**STATE OF TEXAS
COUNTY OF HIDALGO
CITY OF MCALLEN**

WHEREAS the Texas Water Development Board makes funding available to municipal water authorities for water, wastewater and reuse projects intended to serve community residents and

WHEREAS the City of McAllen desires to proceed with the acquisition of 3,000 ac-ft of surface water rights from Hidalgo County Irrigation District # 1 for a total cost not to exceed \$6,900,000 and

WHEREAS the City of McAllen hereby finds and determines that there is a pressing need for acquisition of these additional water rights to allow City of McAllen to continue to sustain a growing population.

NOW THEREFORE BE IT RESOLVED BY THE BOARD OF TRUSTEES OF THE MCALLEN PUBLIC UTILITY THAT

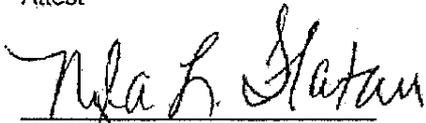
1. McAllen Public Utility is hereby authorized and instructed to develop and submit an application to the Texas Water Development Board seeking funds in the amount of \$ 6,900,000 to provide for the acquisition of 3,000 ac-ft of surface water rights from Hidalgo County Irrigation District # 1 and.
2. That Marco A. Vega, P.E., General Manager of the McAllen Public Utility be and is hereby designated the authorized representative of the City of McAllen and McAllen Public Utility for the purposes of furnishing such information and executing such documents as may be required in connection with the preparation and filing of such application for financial assistance and the rules of the Texas Water Development Board and in all matters pertaining to this application including appearing before the Texas Water Development Board and submitting other documentation as may be required by the Executive Administrator or the Texas Water Development Board.
3. That the following firms and/or individuals are hereby authorized and directed to aid and assist in the preparation and submission of the application and appear on behalf of and represent the City of McAllen before any hearing held by the Texas Water Development Board on such application to wit
 - a. Financial Advisor: Anne Burger Entekin, Hilltop Securities
 - b. MPU Engineer: Carlos Gonzalez, P.E., Utility Engineer
 - c. MPU Financial: Melba Carvajal, Director of Finance for Utilities
 - d. Bond Counsel: Noel Valdez, McCall, Parkhurst & Horton L.L.P.
4. Upon the approval of this application the General Manager of the McAllen Public Utility is

authorized to execute all legal documents necessary and to perform any acts necessary to implement the project

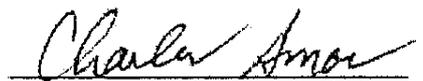
CONSIDERED PASSED APPROVED AND SIGNED this 26th day of March, 2018 at a Joint Meeting of the Board of Commissioners of the City of McAllen and McAllen Public Utility at which a quorum was present and which was held in accordance with Chapter 551 Texas Government Code

Attest

McAllen Public Utility Board



Nyla Flatau, MPU Board Secretary



Charles Amos, MPU Board Chairman

Approved as to form:



Kevin B Pagan, City Attorney

Application Filing and Authorized Representative Resolution

A RESOLUTION by the Board of Commission of the
City of McAllen requesting financial assistance from the Texas Water
Development Board; authorizing the filing of an application for assistance; and making certain findings in
connection therewith.

BE IT RESOLVED BY THE Board of Commission OF
THE City of McAllen:

SECTION 1: That an application is hereby approved and authorized to be filed with the Texas Water
Development Board seeking financial assistance in an amount not to exceed \$ 6,900,000 to provide
for the costs of purchase of 3,000 acre-ft of surface water rights from Hidalgo County Irrigation District # 1.

SECTION 2: That Marco A. Vega, P.E., General Manager - McAllen Public Utility be and is hereby
designated the authorized representative of the City of McAllen for purposes
of furnishing such information and executing such documents as may be required in connection with the preparation
and filing of such application for financial assistance and the rules of the Texas Water Development Board.

SECTION 3: That the following firms and individuals are hereby authorized and directed to aid and assist
in the preparation and submission of such application and appear on behalf of and represent the
City of McAllen before any hearing held by the Texas Water
Development Board on such application, to wit:

Financial Advisor: Anne Burger Entrekin, Hilltop Securities
70 NE Loop 410, Suite 710, San Antonio, TX 78216

Engineer: Carlos Gonzalez, P.E., Utility Engineer, MPU
P.O. Box 220, McAllen, TX 78501

Bond Counsel: Noel Valdez, McCall, Parkhurst & Horton, LLP
717 North Harwood, Suite 900, Dallas, Texas 75201-6587

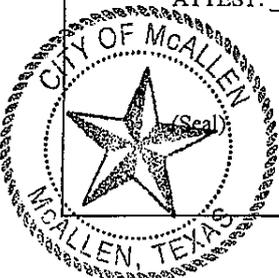
PASSED AND APPROVED, this the 26th day of March, 20 18.

ATTEST:

Perla Lara
Perla Lara, TRMC/CMC, CPM
City Secretary

By:

Jim Darling
Jim Darling, Mayor



Application Filing and Authorized Representative Resolution

A RESOLUTION by the Public Utility Board of the City of McAllen requesting financial assistance from the Texas Water Development Board; authorizing the filing of an application for assistance; and making certain findings in connection therewith.

BE IT RESOLVED BY THE Public Utility Board OF THE City of McAllen:

SECTION 1: That an application is hereby approved and authorized to be filed with the Texas Water Development Board seeking financial assistance in an amount not to exceed \$ 6,900,000 to provide for the costs of purchase of 3,000 acre-ft of surface water rights from Hidalgo County Irrigation District # 1.

SECTION 2: That Marco A. Vega, P.E., General Manager - McAllen Public Utility be and is hereby designated the authorized representative of the City of McAllen for purposes of furnishing such information and executing such documents as may be required in connection with the preparation and filing of such application for financial assistance and the rules of the Texas Water Development Board.

SECTION 3: That the following firms and individuals are hereby authorized and directed to aid and assist in the preparation and submission of such application and appear on behalf of and represent the City of McAllen before any hearing held by the Texas Water Development Board on such application, to wit:

Financial Advisor: Anne Burger Entrekim, Hilltop Securities
70 NE Loop 410, Suite 710, San Antonio, TX 78216

Engineer: Carlos Gonzalez, P.E., Utility Engineer, MPU
P.O. Box 220, McAllen, TX 78501

Bond Counsel: Noel Valdez, McCall, Parkhurst & Horton, LLP
717 North Harwood, Suite 900, Dallas, Texas 75201-6587

PASSED AND APPROVED, this the 26th day of March, 2018.



Maria L. Statau
Statau, MPU Board Secretary

By: Charles Amos
Charles Amos, MPU Board Chairman

Application Affidavit

THE STATE OF TEXAS §
COUNTY OF Hidalgo §
APPLICANT City of McAllen §

BEFORE ME, the undersigned, a Notary Public in and for the State of Texas, on this day personally appeared Marco A. Vega, P.E. as the Authorized Representative of the City of McAllen, who being by me duly sworn, upon oath says that:

1. The decision by the McAllen Board of Commission (authority, city, county, corporation, district) to request financial assistance from the Texas Water Development Board ("TWDB") was made in a public meeting held in accordance with the Open Meetings Act (Government Code, §551.001, et seq.) and after providing all such notice as required by such Act as is applicable to the McAllen Board of Commission (authority, city, county, corporation, district).

2. The information submitted in the application is true and correct according to my best knowledge and belief.

3. The McAllen Board of Commission (authority, city, county, corporation, district) has no pending, threatened, or outstanding judgments, orders, fines, penalties, taxes, assessment or other enforcement or compliance issue of any kind or nature by the Environmental Protection Agency, Texas Commission on Environmental Quality, Texas Comptroller, Texas Secretary of State, or any other federal, state or local government, except for the following (if no such outstanding compliance issues, write in "none").

None

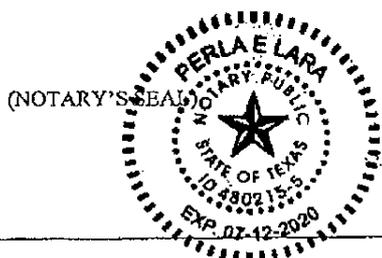
4. The McAllen Board of Commission (authority, city, county, corporation, district) warrants compliance with the representations made in the application in the event that the TWDB provides the financial assistance; and

5. the McAllen Board of Commission (authority, city, county, corporation, district) will comply with all applicable federal laws, rules, and regulations as well as the laws of this state and the rules and regulations of the TWDB.

Marco A. Vega
Official Representative
Title: MPU General Manager

SWORN TO AND SUBSCRIBED BEFORE ME, by Perla Lara, City Secretary

on this 30th day of April, 2018.



Perla E. Lara
Notary Public, State of Texas

Bonds, CCN, Enforcement Action

Is the applicant proposing to issue revenue bonds?: Y

Does the applicant possess a Certificate of Convenience and Necessity (CCN)?: Y

Has the applicant been the subject of any enforcement action by the Texas Commission on Environmental Quality (TCEQ), the Environmental Protection Agency (EPA), or any other entity within the past three years?: N

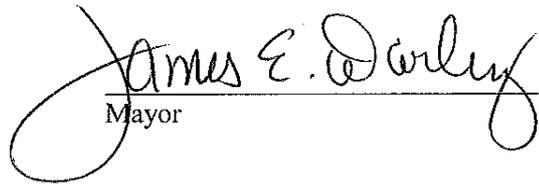
and public notice of the time, place and purpose of said meeting was given, all as required by Chapter 551, Texas Government Code.

3. That the Mayor of said City has approved and hereby approves the aforesaid Ordinance; that the Mayor and the City Secretary of said City have duly signed said Ordinance; and that the Mayor and the City Secretary of said City hereby declare that their signing of this Certificate shall constitute the signing of the attached and following copy of said Ordinance for all purposes.

SIGNED AND SEALED the 14th day of November, 2016.



City Secretary



Mayor



ORDINANCE NO. 2016-74

ORDINANCE AUTHORIZING THE ISSUANCE OF CITY OF McALLEN, TEXAS WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2016, IN THE PRINCIPAL AMOUNT OF \$7,110,000 TO BE SOLD TO THE TEXAS WATER DEVELOPMENT BOARD AND ORDAINING OTHER MATTERS RELATED THERETO

THE STATE OF TEXAS :
COUNTY OF HIDALGO :
CITY OF McALLEN :

WHEREAS, the outstanding bonds of the City of McAllen (the "Issuer" or "City"), which are secured by the Net Revenues of the Issuer's Waterworks and Sewer System are as follows:

City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2009, dated December 1, 2009, now outstanding in the principal amount of \$32,485,000 (the "Series 2009 Bonds")

City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2012, dated July 1, 2012, now outstanding in the principal amount of \$755,000 (the "Series 2012 Bonds")

City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2013, dated August 15, 2013, now outstanding in the principal amount of \$6,155,000 (the "Series 2013 Bonds");

City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2013-A, dated August 15, 2013, now outstanding in the principal amount of \$160,000 (the "Series 2013-A Bonds");

City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2013-B, dated August 15, 2013, now outstanding in the principal amount of \$2,145,000 (the "Series 2013-B Bonds"); and

City of McAllen, Texas Waterworks and Sewer System Revenue Refunding Bonds, Series 2015, dated January 15, 2015, now outstanding in the principal amount of \$15,530,000 (the "Series 2015 Refunding Bonds")

City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2015, dated April 1, 2015, now outstanding in the principal amount of \$39,290,000 (the "Series 2015 Bonds"); and

City of McAllen, Texas Waterworks and Sewer System Revenue Refunding Bonds, Series 2016, dated June 15, 2016, now outstanding in the principal amount of \$23,110,000 (the "Series 2016 Refunding Bonds"); and

WHEREAS, the bonds hereinafter authorized (the "Bonds") are to be issued and delivered pursuant to Chapter 1502, Government Code; and

WHEREAS, the meeting was open to the public and public notice of the time, place and purpose of said meeting was given pursuant to Chapter 551, Texas Government Code.

BE IT ORDAINED BY THE CITY COMMISSION OF THE CITY OF McALLEN, TEXAS, THAT:

Section 1. **AMOUNT AND PURPOSE OF THE BONDS.** The bond or bonds of the City of McAllen (the "Issuer" or "City") are hereby authorized to be issued and delivered in the aggregate principal amount of \$7,110,000 for the purpose of improving and extending the Issuer's Waterworks and Sewer System, to-wit: improvements and extensions to the Sewer System.

Section 2. **DESIGNATION OF THE BONDS.** Each bond issued pursuant to this Ordinance shall be designated: "CITY OF McALLEN, TEXAS WATERWORKS AND SEWER SYSTEM REVENUE BOND, SERIES 2016", and initially there shall be issued, sold, and delivered hereunder a single fully registered bond, without interest coupons, payable in annual installments of principal (the "Initial Bond"), but the Initial Bond may be assigned and transferred and/or converted into and exchanged for a like aggregate principal amount of fully registered bonds, without interest coupons, having serial and annual maturities, and in the denomination or denominations of \$5,000 or any integral multiple of \$5,000, all in the manner hereinafter provided. The term "Bonds" as used in this Ordinance shall mean and include collectively the Initial Bond and all substitute bonds exchanged therefor, as well as all other substitute bonds and replacement bonds issued pursuant hereto, and the term "Bond" shall mean any of the Bonds.

Section 3. **INITIAL DATE, DENOMINATION, NUMBER, MATURITIES, INITIAL REGISTERED OWNER, AND CHARACTERISTICS OF THE INITIAL BOND.** (a) The Initial Bond is hereby authorized to be issued, sold, and delivered hereunder as a single fully registered Bond, without interest coupons, dated December 1, 2016, in the denomination and aggregate principal amount of \$7,110,000, numbered R-1, payable in annual installments of principal to the initial registered owner thereof, to-wit: TEXAS WATER DEVELOPMENT BOARD, or to the registered assignee or assignees of said Bond or any portion or portions thereof (in each case, the "registered owner"), with the annual installments of principal of the Initial Bond to be payable on the dates, respectively, and in the principal amounts, respectively, stated in the FORM OF INITIAL BOND set forth in this Ordinance.

(b) The Initial Bond (i) may be prepaid or redeemed prior to the respective scheduled due dates of installments of principal thereof (only with written approval of the Executive Administrator), (ii) may be assigned and transferred, (iii) may be converted and exchanged for other Bonds, (iv) shall have the characteristics, and (v) shall be signed and sealed, and the principal of and interest on the Initial Bond shall be payable, all as provided, and in the manner required or indicated, in the FORM OF INITIAL BOND set forth in this Ordinance.

Section 4. **INTEREST.** The unpaid principal balance of the Initial Bond shall bear interest from the date of delivery of the Initial Bond and will be calculated on the basis of a 360-day year of twelve 30-day months to the respective scheduled due dates, or to the respective dates of prepayment or redemption, of the installments of principal of the Initial Bond, and said interest shall be payable, all in the manner provided and at the rates and on the dates stated in the FORM OF INITIAL BOND set forth in this Ordinance.

Section 5. FORM OF INITIAL BOND. The form of the Initial Bond, including the form of Registration Certificate of the Comptroller of Public Accounts of the State of Texas to be endorsed on the Initial Bond, shall be substantially as follows:

FORM OF INITIAL BOND

NO. R-1

\$7,110,000

**UNITED STATES OF AMERICA
STATE OF TEXAS
COUNTY OF HIDALGO
CITY OF McALLEN, TEXAS
WATERWORKS AND SEWER SYSTEM REVENUE BOND, SERIES 2016**

The CITY OF McALLEN, in HIDALGO COUNTY, Texas (the "Issuer"), being a political subdivision of the State of Texas, hereby promises to pay to

TEXAS WATER DEVELOPMENT BOARD

or to the registered assignee or assignees of this Bond or any portion or portions hereof (in each case, the "registered owner") the aggregate principal amount of

SEVEN MILLION ONE HUNDRED TEN THOUSAND DOLLARS

in annual installments of principal due and payable on February 1 in each of the years, and in the respective principal amounts, as set forth in the following schedule:

<u>YEARS</u>	<u>AMOUNTS</u>	<u>YEARS</u>	<u>AMOUNTS</u>
2018	\$20,000	2033	\$260,000
2019	20,000	2034	265,000
2020	20,000	2035	270,000
2021	25,000	2036	270,000
2022	205,000	2037	275,000
2023	245,000	2038	280,000
2024	245,000	2039	285,000
2025	245,000	2040	290,000
2026	240,000	2041	290,000
2027	245,000	2042	295,000
2028	250,000	2043	300,000
2029	255,000	2044	305,000
2030	255,000	2045	310,000
2031	260,000	2046	310,000
2032	260,000	2047	315,000

and to pay interest, from the date of delivery of this Initial Bond (December 14, 2016), on the balance of each such installment of principal, respectively, from time to time remaining unpaid, at the following rates per annum:

<u>YEARS</u>	<u>INTEREST RATES</u>	<u>YEARS</u>	<u>INTEREST RATES</u>
2018	0.00%	2033	1.14%
2019	0.00	2034	1.19
2020	0.00	2035	1.23
2021	0.00	2036	1.26
2022	0.00	2037	1.29
2023	0.07	2038	1.32
2024	0.27	2039	1.34
2025	0.42	2040	1.35
2026	0.53	2041	1.36
2027	0.66	2042	1.37
2028	0.77	2043	1.38
2029	0.87	2044	1.39
2030	0.94	2045	1.40
2031	1.01	2046	1.41
2032	1.08	2047	1.41

Said interest being payable on February 1, 2017 and semiannually on each August 1 and February 1 thereafter while this Bond or any portion hereof is outstanding and unpaid.

THE INSTALLMENTS OF PRINCIPAL OF AND THE INTEREST ON this Bond are payable in lawful money of the United States of America, without exchange or collection charges. The installments of principal and the interest on this Bond are payable to the registered owner hereof through the services of **BOKF, NA, Austin, Texas**, the "Paying Agent/Registrar" for this Bond. Payment of all principal of and interest on this Bond shall be made by the Paying Agent/Registrar to the registered owner hereof on each principal and/or interest payment date by check or draft, dated as of such date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the Issuer required by the ordinance authorizing the issuance of this Bond (the "Bond Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such principal and/or interest payment date, to the registered owner hereof, at the address of the registered owner, as it appeared on the 15th day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar as hereinafter described. In addition, interest may be paid by electronic or wire transfer, or by such other method acceptable to Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner, however, if the Bond is owned by the Texas Water Development Board, payment of principal and interest on the Bond shall be made by federal fund wire transfer, at no cost to the Texas Water Development Board. The Issuer covenants with the registered owner of this Bond that on or before each principal and/or interest payment date for this Bond it will make available to the Paying Agent/Registrar, from the "Interest and Sinking Fund" created by the Bond Ordinance, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on this Bond, when due.

IF THE DATE for the payment of the principal of or interest on this Bond shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar

is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

THIS BOND has been authorized in accordance with the Constitution and laws of the State of Texas in the principal amount of \$7,110,000 for the purpose of improving and extending the City's Waterworks and Sewer System, to-wit: improvements and extensions to the Sewer System.

ON FEBRUARY 1, 2027, or any date thereafter, the unpaid installments of principal of this Bond may be prepaid or redeemed prior to their scheduled due dates, at the option of the Issuer, with funds derived from any available source, as a whole, or in part, and, if in part, the Issuer shall select, in inverse order of maturity and designate the maturity, or maturities, and the amount that is to be redeemed, and if less than a whole maturity is to be called, the Issuer shall direct the Paying Agent/Registrar to call by lot (provided that a portion of this Bond may be redeemed only in an integral multiple of \$5,000), at the redemption price of the principal amount, plus accrued interest to the date fixed for prepayment or redemption.

AT LEAST 30 days prior to the date fixed for any such prepayment or redemption a written notice of such prepayment or redemption shall be mailed by the Paying Agent/Registrar to the registered owner hereof. By the date fixed for any such prepayment or redemption due provision shall be made by the Issuer with the Paying Agent/Registrar for the payment of the required prepayment or redemption price for this Bond or the portion hereof which is to be so prepaid or redeemed, plus accrued interest thereon to the date fixed for prepayment or redemption. If such written notice of prepayment or redemption is given, and if due provision for such payment is made, all as provided above, this Bond, or the portion thereof which is to be so prepaid or redeemed, thereby automatically shall be treated as prepaid or redeemed prior to its scheduled due date, and shall not bear interest after the date fixed for its prepayment or redemption, and shall not be regarded as being outstanding except for the right of the registered owner to receive the prepayment or redemption price plus accrued interest to the date fixed for prepayment or redemption from the Paying Agent/Registrar out of the funds provided for such payment. The Paying Agent/Registrar shall record in the Registration Books all such prepayments or redemptions of principal of this Bond or any portion hereof.

THIS BOND, to the extent of the unpaid or unredeemed principal balance hereof, or any unpaid and unredeemed portion hereof in any integral multiple of \$5,000, may be assigned by the initial registered owner hereof and shall be transferred only in the Registration Books of the Issuer kept by the Paying Agent/Registrar acting in the capacity of registrar for the Bonds, upon the terms and conditions set forth in the Bond Ordinance. Among other requirements for such transfer, this Bond must be presented and surrendered to the Paying Agent/Registrar for cancellation, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Paying Agent/Registrar, evidencing assignment by the initial registered owner of this Bond, or any portion or portions hereof in any integral multiple of \$5,000, to the assignee or assignees in whose name or names this Bond or any such portion or portions hereof is or are to be transferred and registered. Any instrument or instruments of assignment satisfactory to the Paying Agent/Registrar may be used to evidence the assignment of this Bond or any such portion or portions hereof by the initial registered owner hereof. A new bond or bonds payable to such assignee or assignees (which then will be the new registered owner or owners of such new Bond or Bonds) or to the initial registered owner as to any portion of this Bond which is not being assigned and transferred by the initial registered owner, shall be delivered by the Paying Agent/Registrar in conversion of and exchange for this Bond or any portion or portions hereof, but solely in the form and manner as provided in the next paragraph hereof for the conversion and exchange of this Bond or any portion hereof. The registered owner of this Bond

shall be deemed and treated by the Issuer and the Paying Agent/Registrar as the absolute owner hereof for all purposes, including payment and discharge of liability upon this Bond to the extent of such payment, and the Issuer and the Paying Agent/Registrar shall not be affected by any notice to the contrary.

AS PROVIDED above and in the Bond Ordinance, this Bond, to the extent of the unpaid or unredeemed principal balance hereof, may be converted into and exchanged for a like aggregate principal amount of fully registered bonds, without interest coupons, payable to the assignee or assignees duly designated in writing by the initial registered owner hereof, or to the initial registered owner as to any portion of this Bond which is not being assigned and transferred by the initial registered owner, in any denomination or denominations in any integral multiple of \$5,000 (subject to the requirement hereinafter stated that each substitute bond issued in exchange for any portion of this Bond shall have a single stated principal maturity date), upon surrender of this Bond to the Paying Agent/Registrar for cancellation, all in accordance with the form and procedures set forth in the Bond Ordinance. If this Bond or any portion hereof is assigned and transferred or converted each bond issued in exchange for any portion hereof shall have a single stated principal maturity date corresponding to the due date of the installment of principal of this Bond or portion hereof for which the substitute bond is being exchanged, and shall bear interest at the rate applicable to and borne by such installment of principal or portion thereof. Such bonds, respectively, shall be subject to redemption prior to maturity on the same dates and for the same prices as the corresponding installment of principal of this Bond or portion hereof for which they are being exchanged. No such bond shall be payable in installments, but shall have only one stated principal maturity date. AS PROVIDED IN THE BOND ORDINANCE, THIS BOND IN ITS PRESENT FORM MAY BE ASSIGNED AND TRANSFERRED OR CONVERTED ONCE ONLY, and to one or more assignees, but the bonds issued and delivered in exchange for this Bond or any portion hereof may be assigned and transferred, and converted, subsequently, as provided in the Bond Ordinance. The Issuer shall pay the Paying Agent/Registrar's standard or customary fees and charges for transferring, converting, and exchanging this Bond or any portion thereof, but the one requesting such transfer, conversion, and exchange shall pay any taxes or governmental charges required to be paid with respect thereto. The Paying Agent/Registrar shall not be required to make any such assignment, conversion, or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or, (ii) with respect to any Bond or portion thereof called for prepayment or redemption prior to maturity, within 45 days prior to its prepayment or redemption date.

IN THE EVENT any Paying Agent/Registrar for this Bond is changed by the Issuer, resigns, or otherwise ceases to act as such, the Issuer has covenanted in the Bond Ordinance that it promptly will appoint a competent and legally qualified substitute therefor, and promptly will cause written notice thereof to be mailed to the registered owner of this Bond.

IT IS HEREBY certified, recited, and covenanted that this Bond has been duly and validly authorized, issued, sold, and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the authorization, issuance, and delivery of this Bond have been performed, existed, and been done in accordance with law, that this Bond is a special obligation; and that the interest on and principal of this Bond, together with other outstanding revenue bonds, if any, are payable from and secured by an irrevocable first lien on and pledge of the Pledge Revenues, as defined by the Bond Ordinance and which revenues include the Net Revenues of said Issuer's Waterworks and Sewer System.

THE ISSUER has reserved the right, subject to the restrictions stated and adopted by reference in the Ordinance authorizing this Series of Bonds, to issue additional parity revenue bonds which also may be made payable from, and secured by a lien on and pledge of the aforesaid Net Revenues.

THE OWNER HEREOF shall never have the right to demand payment of this obligation out of any funds raised or to be raised by taxation, or from any source whatsoever other than the aforesaid Net Revenues.

BY BECOMING the registered owner of this Bond, the registered owner thereby acknowledges all of the terms and provisions of the Bond Ordinance, agrees to be bound by such terms and provisions, acknowledges that the Bond Ordinance is duly recorded and available for inspection in the official minutes and records of the governing body of the Issuer, and agrees that the terms and provisions of this Bond and the Bond Ordinance constitute a contract between the registered owner hereof and the Issuer.

IN WITNESS WHEREOF, the Issuer has caused this Bond to be signed with the manual or facsimile signature of the Mayor of the Issuer and countersigned with the manual or facsimile signature of the City Secretary of the Issuer, has caused the official seal of the Issuer to be duly impressed on this Bond, and has caused this Bond to be dated December 1, 2016.

City Secretary

Mayor

(CITY SEAL)

The following shall be printed on said Bond:

"This Bond was delivered to and paid for by the Purchaser thereof on December 14, 2016".

**FORM OF REGISTRATION CERTIFICATE OF THE
COMPTROLLER OF PUBLIC ACCOUNTS:**

COMPTROLLER'S REGISTRATION CERTIFICATE: REGISTER NO.

I hereby certify that this Bond has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Bond has been registered by the Comptroller of Public Accounts of the State of Texas.

Witness my signature and seal this

Comptroller of Public Accounts of the State of Texas

(COMPTROLLER'S SEAL)

Section 6. **ADDITIONAL CHARACTERISTICS OF THE BONDS.** (a) Registration and Transfer. The Issuer shall keep or cause to be kept at the principal corporate trust office of **BOKF, NA, Austin, Texas**, (the "Paying Agent/Registrar") books or records of the registration and transfer of the Bonds (the "Registration Books"), and the Issuer hereby appoints the Paying Agent/Registrar as its registrar and transfer agent to keep such books or records and make such transfers and registrations under such reasonable regulations as the Issuer and Paying Agent/Registrar may prescribe; and the Paying Agent/Registrar shall make such transfers and registrations as herein provided. The Paying Agent/Registrar shall obtain and record

in the Registration Books the address of the registered owner of each Bond to which payments with respect to the Bonds shall be mailed, as herein provided; but it shall be the duty of each registered owner to notify the Paying Agent/Registrar in writing of the address to which payments shall be mailed, and such interest payments shall not be mailed unless such notice has been given. The Issuer shall have the right to inspect the Registration Books during regular business hours of the Paying Agent/Registrar, but otherwise the Paying Agent/Registrar shall keep the Registration Books confidential and, unless otherwise required by law, shall not permit their inspection by any other entity. Registration of each Bond may be transferred in the Registration Books only upon presentation and surrender of such Bond to the Paying Agent/Registrar for transfer of registration and cancellation, together with proper written instruments of assignment, in form and with guarantee of signatures satisfactory to the Paying Agent/Registrar, (i) evidencing the assignment of the Bond, or any portion thereof in any integral multiple of \$5,000, to the assignee or assignees thereof, and (ii) the right of such assignee or assignees to have the Bond or any such portion thereof registered in the name of such assignee or assignees. Upon the assignment and transfer of any Bond or any portion thereof, a new substitute Bond or Bonds shall be issued in conversion and exchange therefor in the manner herein provided. The Initial Bond, to the extent of the unpaid or unredeemed principal balance thereof, may be assigned and transferred by the initial registered owner thereof once only, and to one or more assignees designated in writing by the initial registered owner thereof. All Bonds issued and delivered in conversion of and exchange for the Initial Bond shall be in any denomination or denominations of any integral multiple of \$5,000 (subject to the requirement hereinafter stated that each substitute Bond shall have a single stated principal maturity date), shall be in the form prescribed in the FORM OF SUBSTITUTE BOND set forth in this Ordinance, and shall have the characteristics, and may be assigned, transferred, and converted as hereinafter provided. If the Initial Bond or any portion thereof is assigned and transferred or converted the Initial Bond must be surrendered to the Paying Agent/Registrar for cancellation, and each Bond issued in exchange for any portion of the Initial Bond shall have a single stated principal maturity date, and shall not be payable in installments; and each such Bond shall have a principal maturity date corresponding to the due date of the installment of principal or portion thereof for which the substitute Bond is being exchanged; and each such Bond shall bear interest at the single rate applicable to and borne by such installment of principal or portion thereof for which it is being exchanged. If only a portion of the Initial Bond is assigned and transferred, there shall be delivered to and registered in the name of the initial registered owner substitute Bonds in exchange for the unassigned balance of the Initial Bond in the same manner as if the initial registered owner were the assignee thereof. If any Bond or portion thereof other than the Initial Bond is assigned and transferred or converted each Bond issued in exchange shall have the same principal maturity date and bear interest at the same rate as the Bond for which it is exchanged. A form of assignment shall be printed or endorsed on each Bond, excepting the Initial Bond, which shall be executed by the registered owner or its duly authorized attorney or representative to evidence an assignment thereof. Upon surrender of any Bonds or any portion or portions thereof for transfer of registration, an authorized representative of the Paying Agent/Registrar shall make such transfer in the Registration Books, and shall deliver a new fully registered substitute Bond or Bonds, having the characteristics herein described, payable to such assignee or assignees (which then will be the registered owner or owners of such new Bond or Bonds), or to the previous registered owner in case only a portion of a Bond is being assigned and transferred, all in conversion of and exchange for said assigned Bond or Bonds or any portion or portions thereof, in the same form and manner, and with the same effect, as provided in Section 6(d), below, for the conversion and exchange of Bonds by any registered owner of a Bond. The Issuer shall pay the Paying Agent/Registrar's standard or customary fees and charges for making such transfer and delivery of a substitute Bond or Bonds, but the one requesting such transfer shall pay any taxes or other governmental charges required to be paid with respect thereto. The Paying Agent/Registrar shall not be required to make transfers of registration of any Bond or any portion thereof (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the

next following principal or interest payment date, or, (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

(b) Ownership of Bonds. The entity in whose name any Bond shall be registered in the Registration Books at any time shall be deemed and treated as the absolute owner thereof for all purposes of this Ordinance, whether or not such Bond shall be overdue, and the Issuer and the Paying Agent/Registrar shall not be affected by any notice to the contrary; and payment of, or on account of, the principal of, premium, if any, and interest on any such Bond shall be made only to such registered owner. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

(c) Payment of Bonds and Interest. The Issuer hereby further appoints the Paying Agent/Registrar to act as the paying agent for paying the principal of and interest on the Bonds, and to act as its agent to convert and exchange or replace Bonds, all as provided in this Ordinance. The Paying Agent/Registrar shall keep proper records of all payments made by the Issuer and the Paying Agent/Registrar with respect to the Bonds, and of all conversions and exchanges of Bonds, and all replacements of Bonds, as provided in this Ordinance. However, in the event of a nonpayment of interest on a scheduled payment date, and for thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be two days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Bondholder appearing on the Security Register at the close of business on the last business day next preceding the date of mailing of such notice.

(d) Conversion and Exchange or Replacement; Authentication. Each Bond issued and delivered pursuant to this Ordinance, to the extent of the unpaid or unredeemed principal balance or principal amount thereof, may, upon surrender of such Bond at the principal corporate trust office of the Paying Agent/Registrar, together with a written request therefor duly executed by the registered owner or the assignee or assignees thereof, or its or their duly authorized attorneys or representatives, with guarantee of signatures satisfactory to the Paying Agent/Registrar, may, at the option of the registered owner or such assignee or assignees, as appropriate, be converted into and exchanged for fully registered bonds, without interest coupons, in the form prescribed in the FORM OF SUBSTITUTE BOND set forth in this Ordinance, in the denomination of \$5,000, or any integral multiple of \$5,000 (subject to the requirement hereinafter stated that each substitute Bond shall have a single stated maturity date), as requested in writing by such registered owner or such assignee or assignees, in an aggregate principal amount equal to the unpaid or unredeemed principal balance or principal amount of any Bond or Bonds so surrendered, and payable to the appropriate registered owner, assignee, or assignees, as the case may be. If the Initial Bond is assigned and transferred or converted each substitute Bond issued in exchange for any portion of the Initial Bond shall have a single stated principal maturity date, and shall not be payable in installments; and each such Bond shall have a principal maturity date corresponding to the due date of the installment of principal or portion thereof for which the substitute Bond is being exchanged; and each such Bond shall bear interest at the single rate applicable to and borne by such installment of principal or portion thereof for which it is being exchanged. If a portion of any Bond (other than the Initial Bond) shall be redeemed prior to its scheduled maturity as provided herein, a substitute Bond or Bonds having the same maturity date, bearing interest at the same rate, in the denomination or denominations of any integral multiple of \$5,000 at the request of the registered owner, and in aggregate principal amount equal to the unredeemed portion thereof, will be issued to the registered owner upon surrender thereof for cancellation. If any Bond or portion thereof (other than the Initial

Bond) is assigned and transferred or converted, each Bond issued in exchange therefor shall have the same principal maturity date and bear interest at the same rate as the Bond for which it is being exchanged. Each substitute Bond shall bear a letter and/or number to distinguish it from each other Bond. The Paying Agent/Registrar shall convert and exchange or replace Bonds as provided herein, and each fully registered bond delivered in conversion of and exchange for or replacement of any Bond or portion thereof as permitted or required by any provision of this Ordinance shall constitute one of the Bonds for all purposes of this Ordinance, and may again be converted and exchanged or replaced. It is specifically provided that any Bond authenticated in conversion of and exchange for or replacement of another Bond on or prior to the first scheduled Record Date for the Initial Bond shall bear interest from the date of the Initial Bond, but each substitute Bond so authenticated after such first scheduled Record Date shall bear interest from the interest payment date next preceding the date on which such substitute Bond was so authenticated, unless such Bond is authenticated after any Record Date but on or before the next following interest payment date, in which case it shall bear interest from such next following interest payment date; provided, however, that if at the time of delivery of any substitute Bond the interest on the Bond for which it is being exchanged is due but has not been paid, then such Bond shall bear interest from the date to which such interest has been paid in full. THE INITIAL BOND issued and delivered pursuant to this Ordinance is not required to be, and shall not be, authenticated by the Paying Agent/ Registrar, but on each substitute Bond issued in conversion of and exchange for or replacement of any Bond or Bonds issued under this Ordinance there shall be printed a certificate, in the form substantially as follows:

"PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

It is hereby certified that this Bond has been issued under the provisions of the Bond Ordinance described on the face of this Bond; and that this Bond has been issued in conversion of and exchange for or replacement of a bond, bonds, or a portion of a bond or bonds of an issue which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

BOKF, NA
Austin, Texas
Paying Agent/Registrar

Dated _____ By _____
Authorized Representative"

An authorized representative of the Paying Agent/Registrar shall, before the delivery of any such Bond, date and manually sign the above Certificate, and no such Bond shall be deemed to be issued or outstanding unless such Certificate is so executed. The Paying Agent/Registrar promptly shall cancel all Bonds surrendered for conversion and exchange or replacement. No additional ordinances, orders, or resolutions need be passed or adopted by the governing body of the Issuer or any other body or person so as to accomplish the foregoing conversion and exchange or replacement of any Bond or portion thereof, and the Paying Agent/Registrar shall provide for the printing, execution, and delivery of the substitute Bonds in the manner prescribed herein, and said Bonds shall be of type composition printed on paper with lithographed or steel engraved borders of customary weight and strength. Pursuant to Chapter 1201, Texas Government Code, the duty of conversion and exchange or replacement of Bonds as aforesaid is hereby imposed upon the Paying Agent/Registrar, and, upon the execution of the above Paying Agent/Registrar's Authentication Certificate, the converted and exchanged or replaced Bond shall be valid, incontestable, and enforceable in the same manner and with the same effect as the Initial Bond which originally was issued pursuant to this Ordinance, approved by the Attorney General, and registered by the Comptroller of Public Accounts. The Issuer shall pay the Paying Agent/Registrar's standard or customary fees and charges for transferring, converting, and exchanging any

Bond or any portion thereof, but the one requesting any such transfer, conversion, and exchange shall pay any taxes or governmental charges required to be paid with respect thereto as a condition precedent to the exercise of such privilege of conversion and exchange. The Paying Agent/Registrar shall not be required to make any such conversion and exchange or replacement of Bonds or any portion thereof (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or, (ii) with respect to any Bond or portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

(e) In General. All Bonds issued in conversion and exchange or replacement of any other Bond or portion thereof, (i) shall be issued in fully registered form, without interest coupons, with the principal of and interest on such Bonds to be payable only to the registered owners thereof, (ii) may be redeemed prior to their scheduled maturities, (iii) may be transferred and assigned, (iv) may be converted and exchanged for other Bonds, (v) shall have the characteristics, (vi) shall be signed and sealed, and (vii) the principal of and interest on the Bonds shall be payable, all as provided, and in the manner required or indicated, in the FORM OF SUBSTITUTE BOND set forth in this Ordinance.

(f) Payment of Fees and Charges. The Issuer hereby covenants with the registered owners of the Bonds that it will (i) pay the standard or customary fees and charges of the Paying Agent/Registrar for its services with respect to the payment of the principal of and interest on the Bonds, when due, and (ii) pay the fees and charges of the Paying Agent/Registrar for services with respect to the transfer of registration of Bonds, and with respect to the conversion and exchange of Bonds solely to the extent above provided in this Ordinance.

(g) Substitute Paying Agent/Registrar. The Issuer covenants with the registered owners of the Bonds that at all times while the Bonds are outstanding the Issuer will provide a competent and legally qualified bank, trust company, financial institution, or other agency to act as and perform the services of Paying Agent/Registrar for the Bonds under this Ordinance, and that the Paying Agent/Registrar will be one entity. The Issuer reserves the right to, and may, at its option, change the Paying Agent/Registrar upon not less than 120 days written notice to the Paying Agent/ Registrar, to be effective not later than 60 days prior to the next principal or interest payment date after such notice. However, the Issuer must obtain approval of the Texas Water Development Board to such change if the Texas Water Development Board owns any of the bonds. In the event that the entity at any time acting as Paying Agent/Registrar (or its successor by merger, acquisition, or other method) should resign or otherwise cease to act as such, the Issuer covenants that promptly it will appoint a competent and legally qualified bank, trust company, financial institution, or other agency to act as Paying Agent/Registrar under this Ordinance. Upon any change in the Paying Agent/Registrar, the previous Paying Agent/Registrar promptly shall transfer and deliver the Registration Books (or a copy thereof), along with all other pertinent books and records relating to the Bonds, to the new Paying Agent/Registrar designated and appointed by the Issuer. Upon any change in the Paying Agent/Registrar, the Issuer promptly will cause a written notice thereof to be sent by the new Paying Agent/Registrar to each registered owner of the Bonds, by United States mail, first-class postage prepaid, which notice also shall give the address of the new Paying Agent/Registrar. By accepting the position and performing as such, each Paying Agent/Registrar shall be deemed to have agreed to the provisions of this Ordinance, and a certified copy of this Ordinance shall be delivered to each Paying Agent/Registrar.

(h) Book-Entry Only System. The Bonds issued in exchange for the Bonds initially issued to the purchaser specified herein shall be initially issued in the form of a separate single fully registered Bond for each of the maturities thereof. Upon initial issuance, the ownership of each such Bond shall be registered in the name of Cede & Co., as nominee of Depository Trust Company of New York ("DTC"), and except as

provided in subsection (f) hereof, all of the outstanding Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, the Issuer and the Paying Agent/Registrar shall have no responsibility or obligation to any DTC Participant or to any person on behalf of whom such a DTC Participant holds an interest on the Bonds. Without limiting the immediately preceding sentence, the Issuer and the Paying Agent/Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other person, other than a Bondholder, as shown on the Registration Books, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any DTC Participant or any other person, other than a Bondholder, as shown in the Registration Books of any amount with respect to principal of, premium, if any, or interest on, as the case may be, the Bonds. Notwithstanding any other provision of this Ordinance to the contrary, the Issuer and the Paying Agent/Registrar shall be entitled to treat and consider the person in whose name each Bond is registered in the Registration Books as the absolute owner of such Bond for the purpose of payment of principal, premium, if any, and interest, as the case may be, with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Paying Agent/Registrar shall pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective owners, as shown in the Registration Books as provided in this Ordinance, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the Issuer's obligations with respect to payment of principal of, premium, if any, and interest on, or as the case may be, the Bonds to the extent of the sum or sums so paid. No person other than an owner, as shown in the Registration Books, shall receive a Bond certificate evidencing the obligation of the Issuer to make payments of principal, premium, if any, and interest, as the case may be, pursuant to this Ordinance. Upon delivery by DTC to the Paying Agent/Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions in this Ordinance with respect to interest checks being mailed to the registered owner at the close of business on the Record Date, the word "Cede & Co." in this Ordinance shall refer to such new nominee of DTC.

(i) Successor Securities Depository; Transfers Outside Book-Entry Only System. In the event that the Issuer or the Paying Agent/Registrar determines that DTC is incapable of discharging its responsibilities described herein and in the representation letter of the Issuer to DTC and that it is in the best interest of the beneficial owners of the Bonds that they be able to obtain certificated Bonds, the Issuer or the Paying Agent/Registrar shall (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities and Exchange Act of 1934, as amended, notify DTC and DTC Participants of the appointment of such successor securities depository and transfer one or more separate Bonds to such successor securities depository or (ii) notify DTC and DTC Participants of the availability through DTC of Bonds and transfer one or more separate Bonds to DTC Participants having Bonds credited to their DTC accounts. In such event, the Bonds shall no longer be restricted to being registered in the Registration Books in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names Bondholders transferring or exchanging Bonds shall designate, in accordance with the provisions of this Ordinance. In addition, notice of such discharge by DTC shall be given to the Texas Water Development Board and consent obtained, if the Texas Water Development Board owns any of the Bonds.

(j) Payments to Cede & Co. Notwithstanding any other provision of this Ordinance to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of, premium, if any, and interest on, or as the case may be, such Bond and all notices with respect to such Bond shall be made and given, respectively, in the manner provided in the representation letter of the Issuer to DTC.

Section 7. FORM OF SUBSTITUTE BONDS. The form of all Bonds issued in conversion and exchange or replacement of any other Bond or portion thereof, including the form of Paying Agent/Registrar's Certificate to be printed on each of such Bonds, and the Form of Assignment to be printed on each of the Bonds, shall be, respectively, substantially as follows, with such appropriate variations, omissions, or insertions as are permitted or required by this Ordinance.

FORM OF SUBSTITUTE BOND

NO. _____ **PRINCIPAL AMOUNT**

UNITED STATES OF AMERICA
STATE OF TEXAS
COUNTY OF HIDALGO
CITY OF McALLEN, TEXAS
WATERWORKS AND SEWER SYSTEM REVENUE BOND, SERIES 2016

<u>Interest Rate</u>	<u>Date of Original Delivery</u>	<u>Maturity Date</u>	<u>Date of Original Issue</u>	<u>Cusip No.</u>
	December 14, 2016		December 1, 2016	

ON THE MATURITY DATE specified above THE CITY OF McALLEN, in HIDALGO COUNTY, Texas (the "Issuer"), being a political subdivision of the State of Texas, hereby promises to pay to

_____ ,

or to the registered assignee hereof (either being hereinafter called the "registered owner") the principal amount of

and to pay interest thereon from the date of original delivery (which date appears above) to the maturity date specified above, or the date of redemption prior to maturity, at the interest rate per annum specified above; with interest being payable on February 1, 2017 and semiannually thereafter on each August 1 and February 1, except that if the date of authentication of this Bond is later than January 15, 2017, such principal amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date (hereinafter defined) but on or before the next following interest payment date, in which case such principal amount shall bear interest from such next following interest payment date.

THE PRINCIPAL OF AND INTEREST ON this Bond are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Bond shall be paid to the registered owner hereof upon presentation and surrender of this Bond at maturity or upon the date fixed for its redemption prior to maturity, at the principal corporate trust office of *BOKF, NA, Austin, Texas*, which is the "Paying Agent/Registrar" for this Bond. The payment of interest on this Bond shall be made by the Paying Agent/Registrar to the registered owner hereof on the interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds

of the Issuer required by the Ordinance authorizing the issuance of the Bonds (the "Bond Ordinance") to be on deposit with the Paying Agent/ Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the registered owner hereof, at the address of the registered owner, as it appeared on the 15th day of the month next preceding such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar as hereinafter described. In addition, interest may be paid by electronic or wire transfer, or by such other method acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner, however, if the Bond is owned by the Texas Water Development Board, there will be no charge, and payment of principal shall be made by federal funds wire transfer. Any accrued interest due upon the redemption of this Bond prior to maturity as provided herein shall be paid to the registered owner at the principal corporate trust office of the Paying Agent/Registrar upon presentation and surrender of this Bond for redemption and payment at the principal corporate trust office of the Paying Agent/Registrar. The Issuer covenants with the registered owner of this Bond that on or before each principal payment date, interest payment date, and accrued interest payment date for this Bond, it will make available to the Paying Agent/Registrar, from the "Interest and Sinking Fund" created by the Bond Ordinance, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on the Bonds, when due.

IF THE DATE for the payment of the principal of or interest on this Bond shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the City where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

THIS BOND is one of an issue of Bonds initially dated December 1, 2016, authorized in accordance with the Constitution and laws of the State of Texas in the principal amount of \$7,110,000 for the purpose of improving and extending the Issuer's Waterworks and Sewer System, to-wit: improvements and extensions to the Waterworks System.

ON FEBRUARY 1, 2027, or any date thereafter, the unpaid installments of principal of this Bond may be prepaid or redeemed prior to their scheduled due dates, at the option of the Issuer, with funds derived from any available source, as a whole, or in part, and, if in part, the Issuer shall select, in inverse order of maturity and designate the maturity, or maturities, and the amount that is to be redeemed, and if less than a whole maturity is to be called, the Issuer shall direct the Paying Agent/Registrar to call by lot (provided that a portion of this Bond may be redeemed only in an integral multiple of \$5,000), at the redemption price of the principal amount, plus accrued interest to the date fixed for prepayment or redemption.

AT LEAST 30 days prior to the date fixed for any such prepayment or redemption a written notice of such prepayment or redemption shall be mailed by the Paying Agent/Registrar to the registered owner hereof. By the date fixed for any such prepayment or redemption due provision shall be made by the Issuer with the Paying Agent/Registrar for the payment of the required prepayment or redemption price for this Bond or the portion hereof which is to be so prepaid or redeemed, plus accrued interest thereon to the date fixed for prepayment or redemption. If such written notice of prepayment or redemption is given, and if due provision for such payment is made, all as provided above, this Bond, or the portion thereof which is to be so prepaid or redeemed, thereby automatically shall be treated as prepaid or redeemed prior to its scheduled due date, and shall not bear interest after the date fixed for its prepayment or redemption, and shall not be regarded as being outstanding except for the right of the registered owner to receive the prepayment or

redemption price plus accrued interest to the date fixed for prepayment or redemption from the Paying Agent/Registrar out of the funds provided for such payment. The Paying Agent/Registrar shall record in the Registration Books all such prepayments or redemptions of principal of this Bond or any portion hereof.

THIS BOND OR ANY PORTION OR PORTIONS HEREOF IN ANY INTEGRAL MULTIPLE OF \$5,000 may be assigned and shall be transferred only in the Registration Books of the Issuer kept by the Paying Agent/Registrar acting in the capacity of registrar for the Bonds, upon the terms and conditions set forth in the Bond Ordinance. Among other requirements for such assignment and transfer, this Bond must be presented and surrendered to the Paying Agent/Registrar, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Paying Agent/Registrar, evidencing assignment of this Bond or any portion or portions hereof in any integral multiple of \$5,000 to the assignee or assignees in whose name or names this Bond or any such portion or portions hereof is or are to be transferred and registered. The form of Assignment printed or endorsed on this Bond shall be executed by the registered owner or its duly authorized attorney or representative, to evidence the assignment hereof. A new Bond or Bonds payable to such assignee or assignees (which then will be the new registered owner or owners of such new Bond or Bonds), or to the previous registered owner in the case of the assignment and transfer of only a portion of this Bond, may be delivered by the Paying Agent/Registrar in conversion of and exchange for this Bond, all in the form and manner as provided in the next paragraph hereof for the conversion and exchange of other Bonds. The Issuer shall pay the Paying Agent/Registrar's standard or customary fees and charges for making such transfer, but the one requesting such transfer shall pay any taxes or other governmental charges required to be paid with respect thereto. The Paying Agent/Registrar shall not be required to make transfers of registration of this Bond or any portion hereof (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or, (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date. The registered owner of this Bond shall be deemed and treated by the Issuer and the Paying Agent/Registrar as the absolute owner hereof for all purposes, including payment and discharge of liability upon this Bond to the extent of such payment, and the Issuer and the Paying Agent/Registrar shall not be affected by any notice to the contrary.

ALL BONDS OF THIS SERIES are issuable solely as fully registered bonds, without interest coupons, in the denomination of any integral multiple of \$5,000. As provided in the Bond Ordinance, this Bond, or any unredeemed portion hereof, may, at the request of the registered owner or the assignee or assignees hereof, be converted into and exchanged for a like aggregate principal amount of fully registered bonds, without interest coupons, payable to the appropriate registered owner, assignee, or assignees, as the case may be, having the same maturity date, and bearing interest at the same rate, in any denomination or denominations in any integral multiple of \$5,000 as requested in writing by the appropriate registered owner, assignee, or assignees, as the case may be, upon surrender of this Bond to the Paying Agent/Registrar for cancellation, all in accordance with the form and procedures set forth in the Bond Ordinance. The Issuer shall pay the Paying Agent/Registrar's standard or customary fees and charges for transferring, converting, and exchanging any Bond or any portion thereof, but the one requesting such transfer, conversion, and exchange shall pay any taxes or governmental charges required to be paid with respect thereto as a condition precedent to the exercise of such privilege of conversion and exchange. The Paying Agent/Registrar shall not be required to make any such conversion and exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or, (ii) with respect to any Bond or portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

IN THE EVENT any Paying Agent/Registrar for the Bonds is changed by the Issuer, resigns, or otherwise ceases to act as such, the Issuer has covenanted in the Bond Ordinance that it promptly will appoint a competent and legally qualified substitute therefor, and promptly will cause written notice thereof to be mailed to the registered owners of the Bonds.

IT IS HEREBY certified, recited, and covenanted that this Bond has been duly and validly authorized, issued, sold, and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the authorization, issuance, and delivery of this Bond have been performed, existed, and been done in accordance with law, that this Bond is a special obligation; and that the interest on and principal of this Bond, together with other outstanding revenue bonds, if any, are payable from and secured by a first lien on and pledge of the Pledge Revenues, as defined by the Bond Ordinance and which revenues include the Net Revenues of said Issuer's Waterworks and Sewer System.

THE ISSUER has reserved the right, subject to the restrictions stated and adopted by reference in the Ordinance authorizing this Series of Bonds, to issue additional parity revenue bonds which also may be made payable from, and secured by a lien on and pledge of the aforesaid Net Revenues.

THE OWNER HEREOF shall never have the right to demand payment of this obligation out of any funds raised or to be raised by taxation, or from any source whatsoever other than the aforesaid Net Revenues.

BY BECOMING the registered owner of this Bond, the registered owner thereby acknowledges all of the terms and provisions of the Bond Ordinance, agrees to be bound by such terms and provisions, acknowledges that the Bond Ordinance is duly recorded and available for inspection in the official minutes and records of the governing body of the Issuer, and agrees that the terms and provisions of this Bond and the Bond Ordinance constitute a contract between each registered owner hereof and the Issuer.

IN WITNESS WHEREOF, the Issuer has caused this Bond to be signed with the manual or facsimile signature of the Mayor of the Issuer and countersigned with the manual or facsimile signature of the City Secretary of the Issuer, and has caused the official seal of the Issuer to be duly impressed, or placed in facsimile, on this Bond.

City Secretary

(CITY SEAL)

Mayor

FORM OF PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

(To be executed if this Bond is not accompanied by an executed Registration Certificate of the Comptroller of Public Accounts of the State of Texas)

It is hereby certified that this Bond has been issued under the provisions of the Bond Ordinance described in the text of this Bond; and that this Bond has been issued in conversion or replacement of, or in exchange for, a bond, bonds, or a portion of a bond or bonds of a Series which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

Dated

BOKF, NA
Austin, Texas

By _____
Authorized Representative

FORM OF ASSIGNMENT:

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned registered owner of this Bond, or duly authorized representative or attorney thereof, hereby assigns this Bond to

(Assignee's Social Security or Tax
Payer Identification Number)

(Print or type Assignee's Name and
Address Including Zip Code)

and hereby irrevocably constitutes and appoints _____
attorney, to transfer the registration of this Bond on the Paying Agent/Registrar's Registration Books with full
power of substitution in the premises.

Dated _____

NOTICE: This signature must be guaranteed by a member of the New York Stock Exchange or a commercial bank or trust company.

NOTICE: This signature must correspond with the name of the Registered Owner appearing on the face of this Bond in every particular without alteration or enlargement or any change whatsoever.

Section 8. DEFINITIONS. For all purposes of this Ordinance, except as otherwise expressly provided or unless the context otherwise requires, terms have the meanings assigned to them in this section.

"Additional Bonds" has the meaning assigned thereto in Section 26 of this Ordinance.

"Authorized Representative" means any of the following: the Mayor, the City Secretary, the City Manager, the Director of Finance, and any other officer or employee of the City appointed to serve as an "Authorized Representative" hereunder.

"Annual Debt Service Requirements" means, as of the date of calculation, the principal of and interest on the obligations coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand, to the extent permitted by law, conditioned upon default by the City during such fiscal year for which the annual debt service is being calculated, or be payable in respect of any required purchase of such Debt by the City) in such Fiscal Year. "Average Annual Debt Service Requirements" means that average amount which, at the time of computation, will be required to pay the Annual Debt Service Requirements when due (either at Stated Maturity or mandatory redemption) and derived by dividing the total of such Annual Debt Service Requirements by the number of Fiscal Years then remaining before Stated Maturity of such obligations. For the purposes of this definition, a fractional period of a Fiscal Year shall be treated as an entire Fiscal Year. Capitalized interest payments provided from bond proceeds, accrued interest on any Debt, and interest earnings thereon shall be excluded in making such computation.

"Bond" or "Bonds" means any or all of the City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2016.

"Bonds Similarly Secured" means the Previously Issued Bonds, the Bonds, and any Additional Bonds which are secured on equal dignity by a first lien on and pledge of the Net Revenues.

"City" and "Issuer" mean the City of McAllen, Texas, and where appropriate, the City Commission.

"Debt" and "Debt of the City payable from Pledged Revenues" means:

(1) all indebtedness payable from Pledged Revenues and/or Net Revenues incurred or assumed by the City for borrowed money and all other financing obligations of the System payable from Pledged Revenues and/or Net Revenues that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and

(2) all other indebtedness payable from Pledged Revenues and/or Net Revenues (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction or improvement of property or capitalized lease obligations pertaining to the System that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise.

For the purpose of determining Debt, there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository (a) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (b) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the System in prior Fiscal Years.

"Depository" means one or more official depository banks of the City.

"Designated Financial Officer" means the chief financial officer of the City, or such other financial or accounting official of the City so designated by the City Commission.

"Executive Administrator" means the Executive Administrator of the Texas Water Development Board.

"Fiscal Year" or "Year" means the twelve-month accounting period used by the City in connection with the operation of the System, currently ending on September 30 of each year, which may be any twelve consecutive month period established by the City, but in no event may the Fiscal Year be changed more than one time in any three calendar year period.

"Funded Debt" means all Bonds Similarly Secured created or assumed by the City that mature by their terms (in the absence of the exercise of any earlier right of demand), or that are renewable at the option of the City to a date, more than one year after the original creation or assumption of such Debt by the City.

"Government Obligations" shall mean (i) direct non-callable obligations of the United States, including obligations that are unconditionally guaranteed by, the United States of America; (ii) non-callable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; or (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

"Gross Revenues" and "Gross Revenues of the City's Waterworks and Sewer System" means all revenues, income and receipts of every nature derived or received by the City from the operation and ownership of the System.

"Holder" or "Holders" means the registered owner, whose name appears in the Security Register, for any Bonds Similarly Secured.

"Independent Engineer" means an individual, firm or corporation engaged in the engineering profession, being a registered professional engineer under the laws of the State of Texas, having specific experience with respect to water, wastewater, reuse water and/or storm water drainage systems similar to the System.

"Interest and Sinking Fund" means the special Fund created, established and maintained by the City and continued under the provisions of Sections 10 and 11 of this Ordinance.

"MSRB" means the Municipal Securities Rulemaking Board.

"Maintenance and Operating Expenses" means the reasonable and necessary expenses of operation and maintenance of the System as required by Section 1502.056, Texas Government Code, as amended, including all salaries, labor, materials, repairs and extensions necessary to render efficient service (but only such repairs and extensions as, in the judgment of the governing body of the City, are necessary to keep the System in operation and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or conditions which would otherwise impair the Bonds Similarly Secured), and all payments under contracts now or hereafter defined as operating expenses by the Legislature of Texas. Depreciation shall never be considered as a Maintenance and Operation Expense.

"Maturity" means, when used with respect to any Debt, the date on which the principal of such Debt or any installment thereof becomes due and payable as therein provided, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption, or otherwise.

"Maximum Annual Debt Service Requirements" means the greatest requirements of Annual Debt Service Requirements (taking into account all mandatory principal redemption requirements) scheduled to occur in any future Fiscal Year or in the then current Fiscal Year for the particular obligations for which such calculation is made. Capitalized interest payments provided from Debt proceeds, accrued interest on any Debt, and interest earnings thereon shall be excluded in making such computation.

"Net Revenues" and "Net Revenues of the City's Waterworks and Sewer System" mean all Gross Revenues after deducting therefrom an amount equal to the current expenses of operation and maintenance of the System, including all salaries, labor, materials, repairs, and extensions necessary to render efficient service, provided, however, that only such repairs and extensions, as in the judgment of the City Commission, reasonably and fairly exercised by the adoption of appropriate resolutions, are necessary to keep the System in operation and render adequate service to said Issuer and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair the Previously Issued Bonds, the Bonds, or Additional Bonds, shall be deducted in determining "Net Revenues". Payments required to be made by the Issuer for water supply or water facilities, sewer services or sewer facilities, fuel supply, which payments under law constitute and be regarded as expenses of operation and maintenance of the System under this Ordinance. Depreciation and amortization shall not constitute or be regarded as expenses of operation and maintenance of the System.

"Ordinance" means this ordinance.

"Outstanding", when used with respect to Bonds Similarly Secured, means, as of the date of determination, all Bonds Similarly Secured theretofore delivered under this Ordinance and any ordinance authorizing Additional Bonds, except:

- (1) Bonds Similarly Secured theretofore cancelled and delivered to the City or delivered to the Paying Agent/Registrar for cancellation;
- (2) Bonds Similarly Secured deemed paid pursuant to the provisions of Section 33 of this Ordinance or any comparable section of any ordinance authorizing Additional Bonds;

- (3) Bonds Similarly Secured upon transfer of or in exchange for and in lieu of which other Bonds Similarly Secured have been authenticated and delivered pursuant to this Ordinance and any ordinance authorizing Additional Bonds; and

"Paying Agent/Registrar" shall have the meaning set forth in Section 6(a) hereof.

"Permitted Investments" means, qualified investments as long as permitted under the Public Funds Investments Act, Chapter 2256, Texas Government Code, as amended.

"Pledged Revenues" means (1) the Net Revenues, plus (2) any additional revenues, income, receipts, or other resources, including, without limitation, any grants, donations or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which hereafter are pledged by the City to the payment of the Bonds Similarly Secured, and excluding those revenues excluded from Gross Revenues.

"Previously Issued Bonds" means the outstanding and unpaid obligations of the Issuer that are payable, in whole or in part, from and equally and ratably secured by a first lien on and pledge of the Net Revenues of the System and designated as follows:

Waterworks and Sewer System Revenue Bonds, Series 2009
Waterworks and Sewer System Revenue Bonds, Series 2012
Waterworks and Sewer System Revenue Bonds, Series 2013
Waterworks and Sewer System Revenue Bonds, Series 2013-A
Waterworks and Sewer System Revenue Bonds, Series 2013-B
Waterworks and Sewer System Revenue Refunding Bonds, Series 2015
Waterworks and Sewer System Revenue Bonds, Series 2015
Waterworks and Sewer System Revenue Refunding Bonds, Series 2016

"Project" means the acquisition, improvements, repairs and expansion of the City's Sewer System.

"Prudent Utility Practice" means any of the practices, methods and acts, in the exercise of reasonable judgment, in the light of the facts, including but not limited to the practices, methods and acts engaged in or previously approved by a significant portion of the public utility industry, known at the time the decision was made, that would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather is a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. In the case of any facility included in the System which is operated in common with one or more other entities, the term Prudent Utility Practice, as applied to such facility, shall have the meaning set forth in the agreement governing the operation of such facility.

"Rating Agency" means any nationally recognized securities rating agency which has assigned, at the request of the City, a rating to the Bonds Similarly Secured.

"Record Date" as used in connection with any bond or obligation, shall mean the close of business on the last or 15th business day of the month next preceding each Interest Payment Date.

"Required Reserve Fund Deposits" means the deposits and credits, if any, required to be made to the Reserve Fund pursuant to the provisions of Section 14 of this Ordinance.

"Rule" means SEC Rule 15c2-12, as amended from time to time.

"SEC" means the United States Securities and Exchange Commission.

"Special Record Date" shall be fifteen days prior to the scheduled payment date of past due interest.

"Special Project" means, to the extent permitted by law, any waterworks, sanitary sewer, wastewater reuse or municipal drainage system property, improvement or facility declared by the City not to be part of the System, for which the costs of acquisition, construction and installation are paid from proceeds of a financing transaction other than the issuance of bonds payable from ad valorem taxes, Pledged Revenues or Net Revenues and for which all maintenance and operation expenses are payable from sources other than ad valorem taxes, Pledged Revenues or Net Revenues, but only to the extent that and for so long as all or any part of the revenues or proceeds of which are or will be pledged to secure the payment or repayment of such costs of acquisition, construction and installation under such financing transaction.

"Stated Maturity" means the annual principal payments of the Bonds Similarly Secured payable on the respective dates set forth in the ordinances which authorize the issuance of such Bonds Similarly Secured.

"State" means the State of Texas.

"Subordinate Lien Obligations" means (i) any bonds, notes, warrants, certificates of obligation or other Debt issued by the City that are payable, in whole or in part, from and equally and ratably secured by a lien on and pledge of the Net Revenues, such pledge being subordinate and inferior to the lien on and pledge of the Net Revenues that are or will be pledged to the payment of any Bonds Similarly Secured and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by a lien on and pledge of the Net Revenues on a parity with the Subordinate Lien Obligations.

"Surety Bond" shall mean a reserve fund surety bond issued by a bond insurer guaranteeing certain payments into the Reserve Fund as provided in Section 14 hereof and subject to the provisions and limitations set forth in the surety bond.

"Surety Policy" shall mean a surety bond, insurance policy, letter of credit, or other agreement or instrument whereby the issuer is obligated to provide funds up to and including the maximum amount of debt service on the Bonds and under the conditions specified in such agreement or instrument.

"System" shall mean (1) the Issuer's entire existing waterworks and sewer system, together with all future extensions, improvements enlargements, and additions thereto, and all replacements thereof, and (2) any other related facilities, all or any part of the revenues or income from which, in the future, at the option of the Issuer, and in accordance with law, become "Gross Revenues" as heretofore defined; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term System shall not mean any water, sewer, or other facilities of any kind which are declared not to be a part of the System, and which are acquired or constructed by the Issuer with the proceeds from the issuance of "Special Facilities Bonds", which are hereby defined as being special revenue obligations of the Issuer which are not payable from or secured by any Gross Revenues, but which are secured by and payable from liens on

and pledges of any other revenues, sources, or payments, including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities; and such revenues, sources, or payments shall not be considered as or constitute Gross Revenues of the System, unless and to the extent otherwise provided in the ordinance or ordinances authorizing the issuance of such "Special Facilities Bonds".

Section 9. PLEDGE OF PLEDGED REVENUES. The City hereby covenants and agrees that the Pledged Revenues are hereby irrevocably pledged to the payment of principal and interest and security of the Bonds Similarly Secured, including the establishment and maintenance of the special funds created, established and maintained for the payment and security thereof, all as hereinafter provided; and it is hereby ordained that the Bonds Similarly Secured, and the interest thereon, shall constitute a first lien on and pledge of the Pledged Revenues and be valid and binding without any physical delivery thereof or further act by the City, and the lien created hereby on the Pledged Revenues for the payment and security of the Bonds Similarly Secured, including the establishment and maintenance of the special funds created, established and maintained for the payment and security thereof, and the amounts payable from such funds shall be superior to the lien on and pledge of the Net Revenues securing payment of any Subordinate Lien Obligations hereafter issued by the City.

Section 10. SPECIAL FUNDS. The below listed special Funds have been created and established and shall be maintained on the books of the City, so long as any of the Bonds Similarly Secured are outstanding and unpaid:

(a) City of McAllen, Texas Waterworks and Sewer System Fund, hereinafter called the "System Fund";

(b) City of McAllen, Texas Waterworks and Sewer System Revenue Bonds Interest and Sinking Fund, hereinafter called the "Interest and Sinking Fund";

(c) City of McAllen, Texas Waterworks and Sewer System Reserve Fund, hereinafter called the "Reserve Fund".

If such funds shall be sub-accounts of the City's General Fund held by the City's depository, and, as such, not held in separate bank accounts, such treatment shall not constitute a commingling of the monies in such funds or of such funds and the City shall keep full and complete records indicating the monies and investments credited to each of such funds.

Section 11. SYSTEM FUND; INTEREST AND SINKING FUND; RESERVE FUND; DEPOSIT OF NET REVENUES. There has been created and there shall be established and maintained on the books of the City, and accounted for separate and apart from all other funds of the City, a special fund to be entitled the City of McAllen Waterworks and Sewer System Fund" (the "System Fund"). All Gross Revenues shall be deposited and credited to the System Fund immediately as collected and received, unless otherwise provided for in this Ordinance. Current expenses of the maintenance and operation of the System shall be paid from such Gross Revenues credited to the System Fund as a first charge against same. Before making any deposits hereinafter required to be made from the System Fund, the Issuer shall retain in the System Fund at all times an amount equal at least to one-sixth of the amount budgeted for the then current fiscal year for the current operation and maintenance expenses of the System.

For the purpose of paying the principal and interest on all Bond Similarly Secured, there has been created and there shall be established and maintained on the books of the City, and accounted for separate and apart from all other funds of the City, a separate fund entitled the "City of McAllen, Texas Waterworks and Sewer System Interest and Sinking Fund (the "Interest and Sinking Fund").

For the purpose of paying the principal of and interest on all Bonds Similarly Secured, when and to the extent the amounts in the Interest and Sinking Fund available for such payment are insufficient for such purpose, there has been created and there shall be established and maintained on the books of the City, and accounted for separate and apart from all other funds of the City, a separate fund to be entitled "City of McAllen Waterworks and Sewer System Reserve Fund" (the "Reserve Fund"). Net Revenues shall be credited to or deposited in the Interest and Sinking Fund, the Reserve Fund and other funds when and as required by the ordinances authorizing the issuance of Bonds Similarly Secured.

Section 12. FLOW OF FUNDS. All Gross Revenues deposited and credited to the System Fund shall be pledged and appropriated subject to Section 9, to the extent required, for the following uses and in the order of priority shown:

FIRST: to the payment of the amounts required to be deposited and credited to the Interest and Sinking Fund created and established for the payment of the Bonds Similarly Secured, the Bonds, and any Additional Bonds issued by the City as the same become due and payable, and other Bonds Similarly Secured-related payments, including bank liquidity fees and remarketing fees, if any;

SECOND: pro rata to the payment of the amounts required to be deposited and credited (i) to the Reserve Fund created and established to maintain the Required Reserve Amount in accordance with the provisions of this Ordinance, including amounts owed with respect to any Surety Bond, if any, to restore the Required Reserve Amount and (ii) to each other reserve fund created and established to maintain a reserve in accordance with the provisions of the ordinances relating to the issuance of any Bonds Similarly Secured and Additional Bonds hereafter issued by the City; and

THIRD: for all payments made with respect to any Subordinate Lien Obligations, which the Issuer has specifically reserved the right to issue under Section 28 of this Ordinance, and then for any other lawful purpose.

Section 13. INTEREST AND SINKING FUND REQUIREMENTS. On or before December 31, 2016, and on or before the 30th day of each and every month thereafter, the Issuer shall cause to be deposited to the credit of the Interest and Sinking Fund, in approximately equal monthly payments, amounts sufficient, together with any other funds on hand therein, to pay all of the interest or principal and interest coming due on the Bonds Similarly Secured on the next succeeding interest payment date.

The required monthly deposits and credits to the Interest and Sinking Fund shall continue to be made as hereinabove provided until such time as (i) the total amount on deposit in and credited to the Interest and Sinking Fund is equal to the amount required to fully pay and discharge all outstanding Bonds Similarly Secured (principal, premium, if any, and interest) or (ii) the Bonds Similarly Secured are no longer outstanding. Amounts on deposit in and credited to the Reserve Fund and each reserve fund established for any series of Bonds Similarly Secured shall, for purposes of this test, be deemed to be on deposit in and credited to the Interest and Sinking Fund for the sole benefit of the Bonds or the specific series of Bonds Similarly Secured for which such reserve fund was created, as the case may be. Amounts credited to the Reserve Fund and to each Reserve Fund established for any particular series of Bonds Similarly Secured by

virtue of a Surety Bond, with respect to the Bonds, or any instrument comparable to a Surety Bond held in such Reserve Fund shall not be deemed to be on deposit in and credited to the Interest and Sinking fund for the purpose specified in (ii) above.

Accrued interest and capitalized interest, if any, received from the purchaser of any Bonds Similarly Secured shall be taken into consideration and reduce the amount of the deposits and credits hereinabove required into the Interest and Sinking Fund.

Section 14. RESERVE FUND; RESERVE FUND SURETY INSURER; MUNICIPAL BOND INSURANCE. (a) In connection with the issuance of the Previously Issued Bonds identified in the definition thereof as the "Series 2009 Bonds" (which were purchased and currently are held by the Texas Water Development Board), the Issuer determined and committed to fund the Reserve Fund, for the benefit of the holder of the Series 2009 Bonds in the amount of the average annual principal and interest requirements of such Series 2009 Bonds. Section 26(c) of the ordinance which authorized the Series 2009 Bonds permits the Issuer, in connection with the issuance of a series of Additional Bonds (such as the Bonds authorized by this Ordinance), to create a reserve fund "for the purpose of securing that particular issue or series of Additional Bonds or any specific group of issues or series of Additional Bonds" Because the Series 2009 Bonds and the Previously Issued Bonds identified in the definition thereof as the "Series 2012 Bonds" were going to be owned by the same owner (i.e., the Texas Water Development Board), the Issuer, in the Ordinance authorizing the Series 2012 Bonds, provided that the Reserve Fund that was funded in connection with the Series 2009 Bonds to also jointly secure the Series 2012 Bonds and the Texas Water Development Board consented to such joint security. Accordingly, upon the issuance of the Series 2012 Bonds, the average annual principal and interest requirements for the Series 2009 Bonds and the Series 2012 Bonds equaled \$1,365,872, which amount was \$49,705 greater than the amount required to be accumulated in the Reserve Fund when the Series 2009 Bonds initially were issued. In order to accumulate this required amount of cash and investments in the Reserve Fund within 60 months after the issuance of the Series 2012 Bonds, the Issuer began making monthly cash deposits in the amount of \$24,009 on the 30th day of each month, commencing on August 30, 2012 through July 30, 2014, and thereafter on the 30th day of each month in the amount of \$21,937 for the next 36 monthly payments.

Because the Series 2009 Bonds, the Series 2012 Bonds, and the Previously Issued Bonds identified in the definition thereof as the "Series 2013 Bonds," the "Series 2013-A Bonds" and the "Series 2013-B Bonds" were going to be owned by the same owner (i.e., the Texas Water Development Board), the Issuer, in the Ordinances authorizing the Series 2013 Bonds, the Series 2013-A Bonds and the Series 2013-B Bonds provided that the Reserve Fund that was funded in connection with the Series 2009 Bonds and the Series 2012 Bonds would also jointly secure the Series 2013 Bonds, the Series 2013-A Bonds and the Series 2013-B Bonds, and the Texas Water Development Board consented to such joint security. Accordingly, upon the issuance of the Series 2013 Bonds, the Series 2013-A Bonds and the Series 2013-B Bonds, the average annual principal and interest requirements for the Series 2009 Bonds, the Series 2012 Bonds, the Series 2013 Bonds, and Series 2013-A Bonds and the Series 2013-B Bonds equaled \$1,635,016, which amount was \$267,215 greater than the amount required to be accumulated in the Reserve Fund when the Series 2012 Bonds initially were issued. In order to accumulate this required amount of cash and investments in the Reserve Fund within 60 months following the issuance of the Series 2013 Bonds, the Series 2013-A Bonds and the Series 2013-B Bonds, the Issuer began making additional monthly cash deposits (i.e., in addition to the monthly deposits described in the preceding paragraph) in the amount of not less than (i) \$6,344.73 for the first 24 months after the issuance of the Series 2013 Bonds, the Series 2013-A Bonds and the Series 2013-B Bonds, and (ii) \$3,192.82 for the following 36 months.

Upon the issuance of the Series 2015 Bonds, such bonds also to be owned by the Texas Water Development Board and to be jointly secured by the reserve fund securing the Series 2009 Bonds, the Series 2012 Bonds, the Series 2013 Bonds, the Series 2013-A Bonds and the Series 2013-B Bonds, the average annual principal and interest requirements for the Series 2009 Bonds, the Series 2012 Bonds, the Series 2013 Bonds, the Series 2013-A Bonds, the Series 2013-B Bonds and the Series 2015 Bonds was equal to **\$3,117,990** and the amount that was be on deposit in the Reserve Fund on the date of issuance of the Series 2015 Bonds was **\$1,400,827**. Accordingly, the aggregate amount required to be deposited into the Reserve Fund following the issuance of the Series 2015 Bonds in order to fully fund the Reserve Fund to the Required Reserve Amount within five years from the date of issuance of the Series 2015 Bonds was **\$1,717,163.23**. In order to accumulate this required amount of cash and investments in the Reserve Fund within 60 months after the issuance of the Series 2015 Bonds, the Issuer began making monthly cash deposits in the amount not less than **\$34,923.19** on or before the 30th day of each month, commencing on May 31, 2015 through September 30, 2015, and thereafter on the 30th day of each month in the amount of not less than **\$28,619.39** until the amount on deposit in the Reserve Fund was equal to not less than the Required Reserve Amount.

Upon the issuance of the Bonds, also to be owned by the Texas Water Development Board and to be jointly secured by the reserve fund securing the Series 2009 Bonds, the Series 2012 Bonds, the Series 2013 Bonds, the Series 2013-A Bonds, the Series 2013-B Bonds, and the Series 2015 Bonds, the average annual principal and interest requirements for the Series 2009 Bonds, the Series 2012 Bonds, the Series 2013 Bonds, the Series 2013-A Bonds, the Series 2013-B Bonds, the Series 2015 Bonds and the Bonds authorized by this Ordinance will be equal to **\$3,163,011** (the "Required Reserve Amount"), and the amount that will be on deposit in the Reserve Fund on the date of issuance of the Bonds will be not less than **\$2,025,422**. Accordingly, the aggregate amount required to be deposited into the Reserve Fund following the issuance of the Bonds in order to fully fund the Reserve Fund to the Required Reserve Amount within five years from the date of issuance of the Bonds is **\$1,137,589**. In order to accumulate this required amount of cash and investments in the Reserve Fund within 60 months after the issuance of the Bonds, and notwithstanding anything set forth in the preceding two paragraphs with respect to monthly payment amounts, the Issuer shall begin making monthly cash deposits in the amount not less than **\$18,959.82** on or before the 30th day of each month, commencing on January 31, 2017, until the amount on deposit in the Reserve Fund is equal to not less than the Required Reserve Amount.

After the delivery of any Additional Bonds, the Issuer shall cause the Reserve Fund to be increased, if and to the extent necessary, so that such fund will contain an amount of money and investments equal to the Required Reserve Amount. Any increase in the Required Reserve Amount may be funded from Net Revenues or from proceeds from the sale of any Additional Bonds, or any other available source or combination of sources. All or any part of the Required Reserve Amount not funded initially and immediately after the delivery of any installment or issue of Additional Bonds shall be funded, within not more than five years from the date of such delivery by deposits of Net Revenues in approximately equal monthly installments on or before the 30th day of each month. Principal amounts of the Previously Issued Bonds, the Bonds and any Additional Bonds which must be redeemed pursuant to any applicable mandatory redemption provisions shall be deemed to be maturing amounts of principal for the purpose of calculating principal and interest requirements on such Bonds. When and so long as the amount in the Reserve Fund is not less than the Required Reserve Amount no deposits shall be made to the credit of the Reserve Fund; but when and if the Reserve Fund at any time contains less than the Required Reserve Amount, then the Issuer shall transfer from Net Revenues in the System Fund, and deposit to the credit of the Reserve Fund, monthly, on or before the 30th day of each month, a sum equal to 1/60th of the Required Reserve Amount, until the Reserve Fund is restored to the Required Reserve Amount. The Issuer shall cause all interest and income derived from the deposit or investment of the Reserve Fund to be deposited to the credit of the Interest and Sinking Fund.

(b) The Issuer, at its option and consistent with the provisions of this Section, may fund the Required Reserve Amount by purchasing a Surety Policy that will unconditionally obligate the insurance company or other entity to pay all, or any part thereof, of the Required Reserve Amount in the event funds on deposit in the Reserve Fund are not sufficient to pay the debt service requirements on the Bonds Similarly Secured. If such Surety Policy constitutes a "Credit Agreement" pursuant to Chapter 1371 of the Government Code, the City shall submit, pursuant to and for so long as required by Section 1371.057 of the Government Code or other applicable State of Texas law provision, such Credit Agreement for review and approval by the Texas Attorney General. All ordinances adopted after the date hereof authorizing the issuance of Additional Bonds shall contain a provision to this effect. Section 14 (c) and (d) of this Ordinance contains certain provisions relating to the Surety Bond. The Issuer reserves the right to use Gross Revenues of the System to fund the payment of (1) periodic premiums on the Surety Policy as a part of the payment of Maintenance and Operating Expenses, and (2) any repayment obligation incurred by the Issuer (including interest) to the issuer of the Surety Policy, the repayment of which will result in the reinstatement of such Surety Policy, prior to making payments required to be made to the Reserve Fund pursuant to the provisions of this Section to restore the balance in such fund to the Required Reserve Amount for the Bonds Similarly Secured.

(c) In the event an insurance policy issued to satisfy all or part of the Issuer's obligation with respect to the Reserve Fund causes the amount then on deposit in the Reserve Fund to exceed the Required Reserve Amount, the Issuer may transfer such excess amount to any fund or account established for the payment of or security for Bonds (including any escrow established for the final payment of any such obligations pursuant to Chapter 1207, as amended, Texas Government Code), or use such excess amount for any lawful purpose now or hereafter provided by law; provided, however, to the extent that such excess amount represents Bond proceeds, then such amount must be transferred to the Interest and Sinking Fund.

(d) As long as the Bonds, or any of them, are owned by the Texas Water Development Board, the Issuer may obtain a future Surety Policy, pursuant to Section 14 (b), only if (i) the financial guarantor meets the Texas Water Development Board's adopted standards and rating criteria, (ii) the Executive Administrator of the Texas Water Development Board is notified in advance of the Issuer's intent to obtain a Surety Policy, (iii) a copy of the proposed Surety Policy is forwarded to Texas Water Development Board staff for review, and (iv) the Executive Administrator of the Texas Water Development Board provides written approval of such Surety Policy.

Section 15. INVESTMENTS; FUNDS SECURED. (a) Money in any Fund established pursuant to this Ordinance or any ordinance authorizing the issuance of Additional Bonds, may, at the option of the Issuer, be placed in time deposits or certificates of deposit secured by obligations of the type hereinafter described, or be invested in Government Obligations (as defined in Section 1 hereof) or obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in obligations of instrumentalities of the United States of America, including, but not limited to, evidences of indebtedness issued, insured, or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, United States Postal Service, Farmers Home Administration, Federal Home Loan Mortgage Association, Small Business Administration, Federal Housing Association, or Participation Certificates in the Federal Assets Financing Trust; provided that all such deposits and investments shall be made in such manner as will, in the opinion of the Issuer, permit the money required to be expended from any Fund to be available at the proper time or times as expected to be needed. Such investments (except United States Treasury Obligations-State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value as of the last day of each fiscal year. Unless otherwise set forth herein, all interest and income derived from such deposits and

investments immediately shall be credited to, and any losses debited to, the Fund from which the deposit or investment was made, and surpluses in any Fund shall or may be disposed of as hereinafter provided. Such investments shall be sold promptly when necessary to prevent any default in connection with the Previously Issued Bonds, the Bonds, or Additional Bonds consistent with the ordinances, respectively, authorizing their issuance.

(b) That money in all Funds created by this Ordinance, to the extent not invested, shall be secured in the manner prescribed by law.

Section 16. **EXCESS BOND PROCEEDS.** Any proceeds of Bonds Similarly Secured not required to effectuate the purposes for which such Bonds Similarly Secured were issued, as provided in the respective ordinances authorizing the issuance of such Bonds Similarly Secured, or for the payment of the costs of issuance of such Bonds Similarly Secured shall be deposited and credited to the Interest and Sinking Fund and shall be taken into consideration and shall reduce the amount of deposits and credits to the Interest and Sinking Fund from the Pledged Revenues or used to redeem or purchase Bonds Similarly Secured.

Section 17. **DEFICIENCIES - EXCESS PLEDGED OR NET REVENUES.** (a) If on any occasion there shall not be sufficient Pledged Revenues to make the required deposits and credits to the Interest and Sinking Fund and the Reserve Fund, then such deficiency shall be cured as soon as possible from the next available unallocated Net Revenues, or from any other sources available for such purpose, and such deposits and credits shall be in addition to the amounts otherwise required to be deposited and credited to these Funds.

(b) Subject to making the deposits and credits required by this Ordinance, or any ordinances authorizing the issuance of Bonds Similarly Secured, or the payments and credits required by the provisions of the ordinances authorizing the issuance of Subordinate Lien Obligations, the excess Net Revenues may be used for any lawful purpose.

(c) All interest and income derived from such investments (other than interest and income derived from amounts credited to the Interest and Sinking Fund does not contain the Required Reserve Amount) shall be credited to the System Fund semi-annually.

Section 18. **PAYMENT OF BONDS AND ADDITIONAL BONDS.** While any of the Bonds Similarly Secured are outstanding, the City shall transfer to the respective paying agent/registrars therefor, from funds on deposit in and credited to the Interest and Sinking Fund, and, if necessary, funds on deposit in the Reserve Fund, amounts sufficient to fully pay and discharge promptly the interest on and principal of the Bonds Similarly Secured as shall become due on each interest or principal payment date, or date of redemption of the Bonds Similarly Secured; such transfer of funds must be made in such manner as will cause immediately available funds to be deposited with each respective paying agent/registrars for the Bonds Similarly Secured not later than the business day next preceding the date such payment is due on the Bonds Similarly Secured; provided that funds withdrawn from a reserve fund established for a particular issue or series of Bonds Similarly Secured shall only be used to pay the principal of and interest on such Bonds Similarly Secured. The Paying Agent/Registrar shall destroy all paid Bonds Similarly Secured and furnish the City with an appropriate certificate of cancellation or destruction.

Section 19. **RATES AND CHARGES.** (a) The City and the Utility will at all times fix, maintain charge, and collect for services rendered by the System, rates and charges which will produce Gross Revenues at least sufficient to pay all expenses of operation and maintenance of the System and to provide an additional

amount of Net Revenues to pay promptly all of the principal of and interest on the Bonds Similarly Secured, which amount shall be at least equal to 1.25 times the annual principal and interest requirements for the Bonds Similarly Secured, and to make all deposits now or hereafter required to be made into the Funds established by this Ordinance in connection with the Bonds Similarly Secured.

(b) If the System should become legally liable for any other obligations or indebtedness, the City shall fix, maintain, charge and collect additional rates and charges for services rendered by the System sufficient to establish and maintain funds for the payment thereof.

Section 20. GENERAL COVENANTS. The City and the Utility Board further covenant and agree that in accordance with and to the extent required or permitted by law:

(a) Performance. It will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in any ordinance authorizing the issuance of Bonds Similarly Secured; that it will promptly pay or cause to be paid the principal of and interest on every outstanding Bond Similarly Secured, on the dates and in the places and manner prescribed in such ordinances authorizing the Bonds Similarly Secured; and it will, at the times and in the manner prescribed, deposit and credit or cause to be deposited and credited the amounts required to be deposited and credited to the Interest and Sinking Fund and the Reserve Fund; and any holder of the Bonds Similarly Secured may require the Issuer, its officials, and employees, to carry out, respect, or enforce the covenants and obligations of the ordinances authorizing the issuance of Bonds Similarly Secured, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings, in any court of competent jurisdiction, against the Issuer, its officials, and employees.

(b) City's Legal Authority. The City is a duly created and existing home rule city of the State of Texas, and is duly authorized under the laws of the State of Texas to create and issue the Bonds and Additional Bonds; that all action on its part for the creation and issuance of the Bonds has been duly and effectively taken, and that the Bonds in the hands of the holders thereof are and will be valid and enforceable special obligations of the City in accordance with their terms.

(c) Title. The City has or will obtain lawful title to the lands, buildings, structures and facilities constituting the System, that it warrants that it will defend the title to all the aforesaid lands, buildings, structures and facilities, and every part thereof, for the benefit of the holders of the Bonds Similarly Secured, against the claims and demands of all persons whomsoever, that it is lawfully qualified to pledge the Pledged Revenues to the payment of the Bonds Similarly Secured in the manner prescribed herein, and has lawfully exercised such rights.

(d) Liens. The City will from time to time and before the same become delinquent pay and discharge all taxes, assessments and governmental charges, if any, which shall be lawfully imposed upon it, or the System; it will pay all lawful claims for rents, royalties, labor, materials and supplies which if unpaid might by law become a lien or charge thereon, the lien of which would be prior to or interfere with the liens hereof, so that the priority of the liens granted hereunder shall be fully preserved in the manner provided herein, and it will not create or suffer to be created any mechanic's, laborer's, materialman's or other lien or charge which might or could be prior to the liens hereof, or do or suffer any matter or thing whereby the liens hereof might or could be impaired; provided, however, that no such tax, assessment or charge, and that no such claims which might be used as the basis of a mechanic's, laborer's, materialman's or other lien or charge, shall be required to be paid so long as the validity of the same shall be contested in good faith by the City.

(e) Operation of System: No Free Service. The City will, while the Bonds Similarly Secured are outstanding and unpaid, continuously and efficiently operate the System, and shall maintain the System in good condition, repair and working order, all at reasonable cost. No free service of the System shall be allowed, and should the City or any of its agencies or instrumentalities make use of the services and facilities of the System, payment of the reasonable value shall be made by the City out of funds from sources other than the Gross Revenues of the System, unless made from surplus or excess Pledged Revenues as permitted in Section 10.

(f) Further Encumbrance. While the Bonds Similarly Secured are outstanding and unpaid, it will not additionally encumber the Pledged Revenues in any manner, except as permitted in this Ordinance in connection with Additional Bonds, unless said encumbrance is made junior and subordinate in all respects to the liens, pledges, covenants and agreements of this Ordinance; but the right of the City to issue or incur obligations payable from a subordinate lien on the Pledged Revenues is specifically recognized and retained.

(g) Sale or Disposal of Property. While the Bonds Similarly Secured are outstanding and unpaid, it will not sell, convey, mortgage, encumber, lease or in any manner transfer title to, or otherwise dispose of the System, or any significant or substantial part thereof; provided that whenever the City deems it necessary to dispose of any other property, machinery, fixtures or equipment, it may sell or otherwise dispose of such property, machinery, fixtures or equipment when it has made arrangements to replace the same or provide substitutes therefore, unless it is determined that no such replacement or substitute is necessary.

(h) Insurance. (1) It shall cause to be insured such parts of the System as would usually be insured by municipal corporations operating like properties, with a responsible insurance company or companies, against risks, accidents or casualties against which and to the extent insurance is usually carried by municipal corporations operating like properties, including, to the extent reasonably obtainable, fire and extended coverage insurance, insurance against damage by floods, and use and occupancy insurance. Public liability and property damage insurance shall also be carried unless the City Attorney of the City gives a written opinion to the effect that the City is not liable for claims which would be protected by such insurance. At any time while any contractor engaged in construction work shall be fully responsible therefor, the City shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate insurance. All such policies shall be open to the inspection of the Holders and their representatives at all reasonable times. Upon the occurrence of any loss or damage covered by insurance from one or more of said causes, the City shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the City. The proceeds of insurance covering such property are hereby pledged as security for the Bonds Similarly Secured and, together with any other funds necessary and available for such purpose, shall be used forthwith by the City for repairing the property damaged or replacing the property destroyed; provided, however, that if said insurance proceeds and other funds are insufficient for such purpose, then said insurance proceeds pertaining to the System shall be deposited in a special and separate trust fund, at an official depository of the City, to be designated the Insurance Account. The Insurance Account shall be held until such time as the foregoing clauses (i) and/or (ii) can be complied with, or until other funds become available which, together with the Insurance Account, will be sufficient to make the repairs or replacements originally required, whichever of said events occurs first.

(2) The foregoing provisions of (i) above notwithstanding, the City shall have authority to enter into coinsurance or similar plans where risk of loss is shared in whole or in part by the City.

(3) The annual audit hereinafter required shall contain a section commenting on whether or not the City has complied with the requirements of this Section with respect to the maintenance of insurance, and listing all policies carried, and whether or not all insurance premiums upon the insurance policies to which reference is hereinbefore made have been paid.

(4) The payment of premiums for all insurance policies required under the provisions hereof and the costs associated with the maintenance of any self-insurance program shall be considered Maintenance and Operating Expenses. Nothing in this Ordinance shall be construed as requiring the City to expend any funds which are derived from sources other than the operation of the System, but nothing herein shall be construed as preventing the City from doing so.

(5) Governmental Agencies. It will comply with all of the terms and conditions of any and all franchises, permits and authorizations applicable to or necessary with respect to the System, and which have been obtained from any governmental agency; and the City's consulting engineer has or will obtain and keep in full force and effect all franchises, permits, authorization and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation and maintenance of the System.

(6) No Competition. It will not operate, or grant any franchise or permit, to the extent it legally may, for the acquisition, construction or operation of any competing facilities which might be used as a substitute for the System's facilities, and, to the extent that it legally may, the City will prohibit any such competing facilities.

Section 21. RECORDS AND ACCOUNTS - ANNUAL AUDIT. The City covenants and agrees that so long as any of the Bonds Similarly Secured remain Outstanding, the City will keep and maintain a separate and complete system of records and accounts pertaining to the operations of the System in which full, complete, true, proper, and correct entries shall be made of all dealings, transactions, business and affairs relating thereto, or which in any way affect or pertain to the System or the Gross Revenues or the Net Revenues thereof, as provided by generally accepted accounting principles, consistently applied, and by Chapter 1502, Texas Government Code, as amended, or other applicable law. The Holders of the Bonds Similarly Secured or any duly authorized agent or agents of such Holders shall have the right to inspect the System and all properties comprising the same. The City further agrees that, following the close of each Fiscal Year, the City will cause an audit report of such records and accounts to be made by an Accountant. Copies of each annual audit shall be made available for public inspection during normal business hours at the City's principal office and the City Secretary's office and may be furnished to, upon written request, any Holder upon payment of the reasonable copying and mailing charges. Expenses incurred in making the annual audit of the operations of the System shall be considered as Maintenance and Operating Expenses.

Section 22. COVENANTS REGARDING TAX EXEMPTION. (a) Covenants. The City covenants to take any action necessary to assure, or refrain from any action that would adversely affect, the treatment of the Bonds as obligations described in section 103 of the Code, the interest on which is not includable in the "gross income" of the holder for purposes of federal income taxation. In furtherance thereof, the City covenants as follows:

(i) to take any action to assure that no more than 10 percent of the proceeds of the Bonds or any prior obligations or the projects financed or refinanced therewith (less amounts deposited to a reserve fund, if any) are used for any "private business use," as defined in section 141(b)(6) of the Code or, if more than 10 percent of the proceeds of the Bonds or any prior obligations or the projects financed or refinanced therewith are so used, such amounts, whether or not received by the City, with respect to such private

business use, do not, under the terms of this Ordinance or any underlying arrangement, directly or indirectly, secure or provide for the payment of more than 10 percent of the debt service on the Bonds, in contravention of section 141(b)(2) of the Code;

(ii) to take any action to assure that in the event that the "private business use" described in subsection (i) hereof exceeds 5 percent of the proceeds of the Bonds or any prior obligations or the projects financed or refinanced therewith (less amounts deposited into a reserve fund, if any) then the amount in excess of 5 percent is used for a "private business use" that is "related" and not "disproportionate," within the meaning of section 141(b)(3) of the Code, to the governmental use;

(iii) to take any action to assure that no amount that is greater than the lesser of \$5,000,000, or 5 percent of the proceeds of the Bonds (less amounts deposited into a reserve fund, if any) is directly or indirectly used to finance loans to persons, other than state or local governmental units, in contravention of section 141(c) of the Code;

(iv) to refrain from taking any action that would otherwise result in the Bonds being treated as "private activity bonds" within the meaning of section 141(b) of the Code;

(v) to refrain from taking any action that would result in the Bonds being "federally guaranteed" within the meaning of section 149(b) of the Code;

(vi) to refrain from using any portion of the proceeds of the Bonds, directly or indirectly, to acquire or to replace funds that were used, directly or indirectly, to acquire investment property (as defined in section 148(b)(2) of the Code) that produces a materially higher yield over the term of the Bonds, other than investment property acquired with -

(A) proceeds of the Bonds invested for a reasonable temporary period of 3 years or less or, in the case of a refunding bond, for a period of 30 days or less until such proceeds are needed for the purpose for which the Bonds are issued,

(B) amounts invested in a bona fide debt service fund, within the meaning of section 1.148-1(b) of the Treasury Regulations, and

(C) amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed 10 percent of the proceeds of the Bonds;

(vii) to otherwise restrict the use of the proceeds of the Bonds or amounts treated as proceeds of the Bonds, as may be necessary, so that the Bonds do not otherwise contravene the requirements of section 148 of the Code (relating to arbitrage) and, to the extent applicable, section 149(d) of the Code (relating to advance refundings);

(viii) to pay to the United States of America at least once during each five-year period (beginning on the date of delivery of the Bonds) an amount that is at least equal to 90 percent of the "Excess Earnings," within the meaning of section 148(f) of the Code and to pay to the United States of America, not later than 60 days after the Bonds have been paid in full, 100 percent of the amount then required to be paid as a result of Excess Earnings under section 148(f) of the Code; and

(ix) to file or cause to be filed with the Secretary of the Treasury, not later than the 15th day of the second calendar month after the close of the calendar quarter in which the Bonds are issued, an

information statement concerning the Bonds, all under and in accordance with section 149(e) of the Code and the applicable Treasury Regulations promulgated thereunder.

(x) The City will not acquire any of the Texas Water Development Board's source series bonds in an amount related to the amount of Bonds acquired by the Texas Water Development Board.

(b) Rebate Fund. In order to facilitate compliance with Section (a)(viii) of this Ordinance, a "Rebate Fund" is hereby established by the City for the sole benefit of the United States of America, and such Fund shall not be subject to the claim of any other person, including without limitation the bondholders. The Rebate Fund is established for the additional purpose of compliance with section 148 of the Code.

(c) Use of Proceeds. For purposes of the foregoing covenants, the City understands that the term "proceeds" includes "disposition proceeds" as defined in the Treasury Regulations and, in the case of refunding bonds, transferred proceeds (if any) and proceeds of the refunded bonds expended prior to the date of issuance of the Bonds. It is the understanding of the City that the covenants contained herein are intended to assure compliance with the Code and any regulations or rulings promulgated by the U.S. Department of the Treasury pursuant thereto. In the event that regulations or rulings are hereafter promulgated that modify or expand provisions of the Code, as applicable to the Bonds, the City will not be required to comply with any covenant contained herein to the extent that such failure to comply, in the opinion of nationally recognized bond counsel, will not adversely affect the exemption from federal income taxation of interest on the Bonds under section 103 of the Code. In the event that regulations or rulings are hereafter promulgated that impose additional requirements applicable to the Bonds, the City agrees to comply with the additional requirements to the extent necessary, in the opinion of nationally recognized bond counsel, to preserve the exemption from federal income taxation of interest on the Bonds under section 103 of the Code. In furtherance of such intention, the City hereby authorizes and directs the Mayor or City Manger to execute any documents, certificates or reports required by the Code and to make such elections, on behalf of the City, that may be permitted by the Code as are consistent with the purpose for the issuance of the Bonds.

(d) Written Procedures. Unless superseded by another action of the City, to ensure compliance with the covenants contained herein regarding private business use, remedial actions, arbitrage and rebate, the City Council of the City hereby adopts and establishes the instructions attached hereto as Exhibit A as the City's written procedures.

Section 23. ALLOCATION OF, AND LIMITATION ON, EXPENDITURES FOR THE PROJECT. The City covenants to account for the expenditure of sale proceeds and investment earnings to be used for the Project on its books and records in accordance with the requirements of the Code. The City recognizes that in order for the proceeds to be considered used for the reimbursement of costs, the proceeds must be allocated to expenditures within 18 months of the later of the date that (i) the expenditure is made, or (ii) the Project is completed; but in no event later than three years after the date on which the original expenditure is paid. The foregoing notwithstanding, the City recognizes that in order for proceeds to be expended under the Internal Revenue Code, the sale proceeds or investment earnings must be expended no more than 60 days after the earlier of (i) the fifth anniversary of the delivery of the Bonds, or (ii) the date the Bonds are retired. The City agrees to obtain the advice of nationally-recognized bond counsel if such expenditure fails to comply with the foregoing to assure that such expenditure will not adversely affect the tax-exempt status of the Bonds. For purposes hereof, the City shall not be obligated to comply with this covenant if it obtains an opinion that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest

Section 24. DISPOSITION OF PROJECT. The City covenants that the Project (or any portions thereof) will not be sold or otherwise disposed in a transaction resulting in the receipt by the City of cash or other compensation, unless the City obtains an opinion of nationally-recognized bond counsel that such sale or other disposition will not adversely affect the tax-exempt status of the Bonds. For purposes of the foregoing, the portion of the property comprising personal property and disposed in the ordinary course shall not be treated as a transaction resulting in the receipt of cash or other compensation. For purposes hereof, the City shall not be obligated to comply with this covenant if it obtains a legal opinion that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest.

Section 25. COMPLIANCE WITH RULE 15c2-12.

(a) Definitions. As used in this Section, the following terms have the meanings ascribed to such terms below:

"EMMA" means the Electronic Municipal Market Access system being established by the MSRB.

"MSRB" means the Municipal Securities Rulemaking Board.

"Rule" means SEC Rule 15c2-12, as amended from time to time.

"SEC" means the United States Securities and Exchange Commission.

(b) Annual Reports. The City shall provide annually to the MSRB through EMMA within six months after the end of each fiscal year ending in or after 2016, financial information and operating data with respect to the City of the general type described in Exhibit B hereto. Any financial statements so to be provided shall be (1) prepared in accordance with the accounting principles described in Exhibit B hereto, or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation, and (2) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within such period, then the City shall provide (1) unaudited financial statements for such fiscal year within such six month period, and (2) audited financial statements for the applicable fiscal year to the MSRB through EMMA when and if the audit report on such statements become available.

If the City changes its fiscal year, it will notify the MSRB through EMMA of the date of the new fiscal year end prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this paragraph (b).

The financial information and operating data to be provided pursuant to this paragraph (b) may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document, if it is available from the MSRB) that theretofore has been provided to the MSRB through EMMA or filed with the SEC.

(c) Event Notices.

(i) The City shall notify the MSRB through EMMA in an electronic format as prescribed by the MSRB, in a timely manner (but not in excess of ten business days after the occurrence of the event) of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws:

1. Non-payment related defaults;

2. Modifications to rights of holders;
3. Redemption calls;
4. Release, substitution, or sale of property securing repayment of the Bonds;
5. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, 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; and

6. Appointment of a successor or additional trustee or the change of name of a trustee.

(ii) The City shall notify the MSRB through EMMA in an electronic format as prescribed by the MSRB, in a timely manner (but not in excess of ten business days after the occurrence of the event) of any of the following events with respect to the Bonds, without regard to whether such event is considered material within the meaning of the federal securities laws:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds;
6. Tender offers;
7. Defeasances;
8. Rating changes; and
9. Bankruptcy, insolvency, receivership or similar event of an obligated person.

(iii) The City shall notify the MSRB through EMMA, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with subsection (b) of this Section by the time required by such subsection.

(d) Limitations, Disclaimers, and Amendments. The City shall be obligated to observe and perform the covenants specified in this Section for so long as, but only for so long as, the City remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the City in any event will give

notice of any deposit made in accordance with Section 11 of this Ordinance that causes Bonds no longer to be outstanding.

The provisions of this Section are for the sole benefit of the holders and beneficial owners of the Bonds, and nothing in this Section, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The City undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the City's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Section or otherwise, except as expressly provided herein. The City does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE CITY BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE CITY, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

No default by the City in observing or performing its obligations under this Section shall comprise a breach of or default under this Ordinance for purposes of any other provision of this Ordinance.

Nothing in this Section is intended or shall act to disclaim, waive, or otherwise limit the duties of the City under federal and state securities laws.

The provisions of this Section may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions of this Section, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Ordinance that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the holders and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the City so amends the provisions of this Section, it shall include with any amended financial information or operating data next provided in accordance with paragraph (b) of this Section an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information or operating data so provided.

Section 26. ISSUANCE OF ADDITIONAL BONDS. (a) The City shall have the right and power at any time and from time to time and in one or more series or issues, to authorize, issue and deliver additional

parity revenue bonds or other obligations (herein called "Additional Bonds"), in accordance with law, in any amounts, for purposes of extending, improving or repairing the System or for the purpose of refunding of any Bonds Similarly Secured, Subordinate Lien Obligations or other obligations of the City incurred in connection with the ownership or operation of the System. Such Additional Bonds, if and when authorized, issued and delivered in accordance with this Ordinance, shall be secured by and made payable equally and ratably on a parity with all other Bonds Similarly Secured, from the lien on and pledge of the Pledged Revenues herein granted.

(b) The Interest and Sinking Fund established by this Ordinance shall secure and be used to pay all Bonds Similarly Secured. However, each ordinance under which Additional Bonds are issued shall provide and require that, in addition to the amounts required by the provisions of this Ordinance and the provisions of any other ordinance or ordinances authorizing Additional Bonds to be deposited to the credit of the Interest and Sinking Fund, the City shall deposit to the credit of the Interest and Sinking Fund monthly, on or before the 30th day of each month in approximately equal monthly payments such amounts as are required for the payment of all principal of and interest on said Additional Bonds then being issued, as the same come due.

(c) The City may create and establish a reserve fund pursuant to the provisions of any ordinance authorizing the issuance of Additional Bonds for the purpose of securing that particular issue or series of Additional Bonds or any specific group of issues or series of Additional Bonds and the amounts once deposited or credited to said reserve funds shall no longer constitute Net Revenues and shall be held solely for the benefit of the Holders of the particular Additional Bonds for which such reserve fund was established. Each such reserve fund shall be designated in such manner as is necessary to identify the Additional Bonds it secures and to distinguish such reserve fund from the Reserve Fund and the reserve funds created for the benefit of other Additional Bonds.

Section 27. FURTHER REQUIREMENTS FOR ADDITIONAL BONDS. Additional Bonds shall be issued only in accordance with this Ordinance, but notwithstanding any provisions of this Ordinance to the contrary, no installment, Series or issue of Additional Bonds shall be issued or delivered unless:

(a) The Mayor of the Issuer and the City Secretary of the City sign a written certificate to the effect that the City is not in default as to any covenant, condition or obligation in connection with all outstanding Bonds Similarly Secured, and the ordinances authorizing same, and that the Interest and Sinking Fund and the Reserve Fund each contains the amount then required to be therein.

(b) An independent certified public accountant, or independent firm of certified public accountants, acting by and through a certified public accountant, signs a written certificate to the effect that, in his or it opinion, during either the next preceding fiscal year, or any twelve consecutive calendar month period out of the 18-month period immediately preceding the month in which the ordinance authorizing such issuance of the then proposed Additional Bonds is passed, the Net Revenues were at least 1.25 times an amount equal to the average annual principal and interest requirements and 1.10 times the maximum annual principal and interest requirements of all Bonds Similarly Secured which are outstanding after the delivery of the proposed Additional Bonds. It is specifically provided, however, that in calculating the amount of Net Revenues for the purposes of this subsection (b) if there has been any increase in the rates or charges for any services of the System which is then in effect, but which is then in effect during all or any part of the entire period for which the Net Revenues are being calculated (hereinafter referred to as the "entire period") then the certified public accountant, or in lieu of the certified accountant a firm of consulting engineers, shall determine and certify the amount of Net Revenues as being the total of (i) the actual Net Revenues for the entire period, plus (ii) a sum equal to the aggregate amount by which the actual billings to customers of the System during the

entire period would have been increased if such increased rates or charges had been in effect during the entire period.

At such time that all of the Series 2005 Bonds, Series 2006 Bonds, Series 2009 Bonds and Series 2012 Bonds are either defeased or no longer outstanding, Sub-section 27(b) shall be replaced in its entirety by the following italicized language:

(b) the Finance Director of the City signs a written certificate to the effect that, in his or her opinion, during either the next preceding fiscal year, or any twelve consecutive calendar month period out of the 18-month period immediately preceding the month in which the ordinance authorizing such issuance of the then proposed Additional Bonds is passed, the Net Revenues were at least 1.25 times an amount equal to the average annual principal and interest requirements and 1.10 times the maximum annual principal and interest requirements of all Bonds Similarly Secured which are outstanding after the delivery of the proposed Additional Bonds. It is specifically provided, however, that in calculating the amount of Net Revenues for the purposes of this subsection (b) if there has been any increase in the rates or charges for any services of the System which is then in effect, but which is then in effect during all or any part of the entire period for which the Net Revenues are being calculated (hereinafter referred to as the "entire period") then the certified public accountant, or in lieu of the certified accountant a firm of consulting engineers, shall determine and certify the amount of Net Revenues as being the total of (i) the actual Net Revenues for the entire period, plus (ii) a sum equal to the aggregate amount by which the actual billings to customers of the System during the entire period would have been increased if such increased rates or charges had been in effect during the entire period.

(c) Provision shall be made in the ordinance authorizing their issuance for increasing the Reserve Fund to the Required Reserve Amount as required by Section 14 hereof with proceeds of the Additional Bonds, a surety bond, or other available source or combination of sources including Net Revenues, or any combination.

(d) All calculations of average annual principal and interest requirements of any bonds made in connection with the issuance of any then proposed Additional Bonds shall be made as of the date of such Additional Bonds; and also in making calculations for such purpose, and for any other purpose under this Ordinance, principal amounts of any Bonds which must be redeemed prior to maturity pursuant to any applicable mandatory redemption requirements shall be deemed to be maturing amounts of principal of such Bonds.

Section 28. ISSUANCE OF SUBORDINATE LIEN OBLIGATIONS. The City hereby reserves the right to issue, at any time, obligations including, but not limited to, Subordinate Lien Obligations, payable from and equally and ratably secured, in whole or in part, by a lien on and pledge of the Net Revenues, subordinate and inferior in rank and dignity to the lien on and pledge of such Net Revenues securing the payment of the Bonds Similarly Secured, as may be authorized by the laws of the State of Texas.

Section 29. ISSUANCE OF SPECIAL PROJECT OBLIGATIONS. Nothing in this Ordinance shall be construed to deny the City the right and it shall retain, and hereby reserves unto itself, the right to issue Special Project obligations secured by liens on and pledges of revenues and proceeds derived from Special Projects.

Section 30. LIMITED OBLIGATIONS OF THE CITY. The Bonds Similarly Secured are limited, special obligations of the City payable from and equally and ratably secured solely by a first lien on and pledge of the Pledged Revenues, and the Holders thereof shall never have the right to demand payment

of the principal or interest on the Bonds Similarly Secured from any funds raised or to be raised through taxation by the City.

Section 31. SECURITY FOR FUNDS. All money on deposit in the Funds for which this Ordinance makes provision (except any portion thereof as may be at any time properly invested as provided herein) shall be secured in the manner and to the fullest extent required by the laws of Texas for the security of public funds, and money on deposit in such Funds shall be used only for the purposes permitted by this Ordinance.

Section 32. REMEDIES IN EVENT OF DEFAULT; SECURITY INTEREST. In addition to all the rights and remedies provided by the laws of the State of Texas, it is specifically covenanted and agreed particularly that in the event the City (i) defaults in the payment of the principal, premium, if any, or interest on the Bonds, (ii) defaults in the deposits and credits required to be made to the Interest and Sinking Fund or Reserve Fund, or (iii) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in this Ordinance, the following remedies shall be available:

(a) the Holders of any of the Bonds shall be entitled to seek a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the governing body of the City and other officers of the City to observe and perform any covenant, condition or obligation prescribed in this Ordinance.

(b) no delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. The specific remedy herein provided shall be cumulative of all other existing remedies, and the specification of such remedy shall not be deemed to be exclusive. Any provision of the Bonds or this Ordinance that restricts or limits the Texas Water Development Board's full exercise of its remedies shall be of no force and effect.

(c) Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of Pledged Revenues granted by the Issuer under Section 9 of this Ordinance, and is therefore valid, effective, and perfected. If State law is amended at any time while the Bonds are outstanding and unpaid such that the pledge of the Pledged Revenues granted by the Issuer under this Ordinance is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the registered owners of the Bonds the perfection of the security interest in said pledge, the Issuer agrees to take such measures as it determines are reasonable and necessary under State law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code, and enable a filing to perfect the security interest in said pledge to occur.

Section 33. DEFEASANCE OF BONDS. (a) Defeased Bonds. Any Bond and the interest thereon shall be deemed to be paid, retired and no longer Outstanding (a "Defeased Bond"), except to the extent provided in subsection (d) of this Section, when payment of the principal of such Bond, plus interest thereon to the due date (whether such due date be by reason of maturity or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar (or another entity permitted by Section 1207.061, Texas Government Code, as amended, or other applicable law, which entity, together with the Paying Agent/Registrar, are referred to collectively in this Section as the "Defeasance Agent"), in accordance with the requirements of Chapter 1207, Texas Government Code, as amended, or other applicable law (which may include the use of an escrow agreement or other similar instrument - the "Future Escrow Agreement"): (1) lawful money of the United States of America sufficient to make such

payment or (2) "Defeasance Securities" (as defined below) that mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment, and when proper arrangements have been made by the Issuer with the Defeasance Agent for the payment of its services until all Defeased Bonds shall have become due and payable. At such time as a Bond shall be deemed to be a Defeased Bond hereunder, as aforesaid, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the lien on and pledge of Net Revenues as provided in this Ordinance, and such principal and interest shall be payable solely from such money or Defeasance Securities. Notwithstanding any other provision of this Ordinance to the contrary, it is hereby provided that any determination not to redeem Defeased Bonds that is made in conjunction with the payment arrangements specified in subsection (a)(i) or (ii) of this Section shall not be irrevocable, provided that: (i) in the proceedings providing for such payment arrangements, the Issuer expressly reserves the right to call the Defeased Bonds for redemption; (2) gives notice of the reservation of that right to the owners of the Defeased Bonds immediately following the making of the payment arrangements; and (3) directs that notice of the reservation be included in any redemption notices that it authorizes.

(b) Defeasance Securities. The term "Defeasance Securities" means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the Issuer adopts or approves the proceedings authorizing the financial arrangements are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

(c) Investment in Defeasance Securities. Any moneys so deposited with the Defeasance Agent may at the written direction of the Issuer be invested in Defeasance Securities, maturing in the amounts and times as hereinbefore set forth, and all income from such Defeasance Securities received by the Defeasance Agent that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be turned over to the Issuer, or deposited as directed in writing by the Issuer. Any account or Future Escrow Agreement pursuant to which the money and/or Defeasance Securities are held for the payment of Defeased Bonds may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of the requirements specified in subsections (a)(i) or (ii) of this Section. All income from such Defeasance Securities received by the Defeasance Agent which is not required for the payment of the Defeased Bonds, with respect to which such money has been so deposited, shall be remitted to the Issuer or deposited as directed in writing by the Issuer.

(d) Paying Agent/Registrar Services. Until all Defeased Bonds shall have become due and payable, the Paying Agent/Registrar shall perform the services of Paying Agent/Registrar for such Defeased Bonds the same as if they had not been defeased, and the Issuer shall make proper arrangements to provide and pay for such services as required by this Ordinance.

(e) Selection of Bonds for Defeasance. In the event that the Issuer elects to defease less than all of the principal amount of Bonds of a maturity, the Paying Agent/Registrar shall select, or cause to be selected, such amount of Bonds by such random method as it deems fair and appropriate.

Section 34. DAMAGED, MUTILATED, LOST, STOLEN, OR DESTROYED BONDS. (a) Replacement Bonds. In the event any outstanding Bond is damaged, mutilated, lost, stolen or destroyed, the Paying Agent/Registrar shall cause to be printed, executed and delivered, a new bond of the same principal amount, maturity and interest rate, as the damaged, mutilated, lost, stolen or destroyed Bond, in replacement for such Bond in the manner hereinafter provided.

(b) Application for Replacement Bonds. Application for replacement of damaged, mutilated, lost, stolen or destroyed Bonds shall be made by the registered owner thereof to the Paying Agent/Registrar. In every case of loss, theft or destruction of a Bond, the registered owner applying for a replacement bond shall furnish to the City and to the Paying Agent/Registrar such security or indemnity as may be required by them to save each of them harmless from any loss or damage with respect thereto. Also, in every case of loss, theft or destruction of a Bond, the registered owner shall furnish to the City and to the Paying Agent/Registrar evidence to their satisfaction of the loss, theft or destruction of such Bond, as the case may be. In every case of damage or mutilation of a Bond, the registered owner shall surrender to the Paying Agent/Registrar for cancellation the Bond so damaged or mutilated.

(c) No Default Occurred Notwithstanding the foregoing provisions of this Section, in the event any such Bond shall have matured, and no default has occurred which is then continuing in the payment of the principal of, redemption premium, if any, or interest on the Bond, the City may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated Bond) instead of issuing a replacement Bond, provided security or indemnity is furnished as above provided in this Section.

(d) Charge for Issuance Replacement Bonds. Prior to the issuance of any replacement bond, the Paying Agent/Registrar shall charge the registered owner of such Bond with all legal, printing and other expenses in connection therewith. Every replacement bond issued pursuant to the provisions of this Section by virtue of the fact that any Bond is lost, stolen or destroyed shall constitute a contractual obligation of the City whether or not the lost, stolen or destroyed Bond shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Ordinance equally and proportionately with any and all other Bonds duly issued under this Ordinance.

(e) Authority for Issuance of Replacement Bonds. In accordance with Chapter 1201, Texas Government Code, this Section of this Ordinance shall constitute authority for the issuance of any such replacement bond without necessity of further action by the governing body of the City or any other body or person, and the duty of the replacement of such bonds is hereby authorized and imposed upon the Paying Agent/Registrar, and the Paying Agent/Registrar shall authenticate and deliver such Bonds in the form and manner and with the effect, as provided in Section 6(a) of this Ordinance for Bonds issued in exchange for other Bonds.

Section 35. AMENDMENT OF ORDINANCE. (a) The holders of the Bonds Similarly Secured aggregating a majority in principal amount of the aggregate principal amount of then outstanding Bonds Similarly Secured shall have the right from time to time to approve any amendment to this Ordinance which may be deemed necessary or desirable by the City, provided, however, that without the consent of the holders of all of the affected Bonds Similarly Secured at the time outstanding, nothing herein contained shall permit or be construed to permit the amendment of the terms and conditions in this Ordinance or in the Bonds Similarly Secured so as to:

- (1) Make any change in the maturity of the outstanding Bonds Similarly Secured;
- (2) Reduce the rate of interest borne by any of the outstanding Bonds Similarly Secured;
- (3) Reduce the amount of the principal payable on the outstanding Bonds Similarly Secured;
- (4) Modify the terms of payment of principal of or interest on the outstanding Bonds Similarly Secured or impose any conditions with respect to such payment;

- (5) Affect the rights of the holders of less than all of the Bonds Similarly Secured then outstanding;
- (6) Change the minimum percentage of the principal amount of Bonds Similarly Secured necessary for consent to such amendment.

(b) If at any time the City shall desire to amend this Ordinance under this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal of general circulation in The City of New York, New York or in the State of Texas, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file for inspection by all registered owners of Bonds Similarly Secured at the designated trust office of the registrar for the Bonds Similarly Secured. Such publication is not required, however, if notice in writing is given to each registered owner of the Bonds Similarly Secured.

(c) Whenever at any time not less than thirty days, and within one year, from the date of the first publication of said notice or other service of written notice the City shall receive an instrument or instruments executed by the holders of at least a majority in aggregate principal amount of all Bonds Similarly Secured then outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file with the Paying Agent/Registrar, the City Commission may pass the amendatory ordinance in substantially the same form.

(d) Upon the passage of any amendatory ordinance pursuant to the provisions of this Section, this Ordinance shall be deemed to be amended in accordance with such amendatory ordinance, and the respective rights, duties and obligations under this Ordinance of the City and all the holders of then outstanding Bonds Similarly Secured shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such amendments.

(e) Any consent given by the registered owner of a Bonds Similarly Secured pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication of the notice provided for in this Section, and shall be conclusive and binding upon all future holders of the same Bonds Similarly Secured during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the holder who gave such consent, or by a successor in title, by filing notice thereof with the Paying Agent and the City, but such revocation shall not be effective if the registered owners of at least a majority in aggregate principal amount of the then outstanding Bonds Similarly Secured as in this Section defined have, prior to the attempted revocation, consented to and approve the amendment.

(f) For the purpose of this Section, the fact of the holding of Bonds Similarly Secured issued in registered form without coupons and the amounts and numbers of such Bonds Similarly Secured and the date of their holding same shall be proved by the Registration Books of the Paying Agent/Registrar. For purposes of this Section, the holder of a Parity Obligation in such registered form shall be the owner thereof as shown on such Registration Books. The City may conclusively assume that such ownership continues until written notice to the contrary is served upon the City.

(g) The foregoing provisions of this Section notwithstanding, including subsection (b), the City by action of the City Commission may amend this Ordinance for anyone or more of the following purposes:

- (1) To add to the covenants and agreements of the City in this Ordinance contained, other covenants and agreements thereafter to be observed, grant additional rights or remedies to bondholders or to surrender, restrict or limit any right or power herein reserved to or conferred upon the City;

(2) To make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained in this Ordinance, or in regard to clarifying matters or questions arising under this Ordinance, as are necessary or desirable and not contrary to or inconsistent with this Ordinance and which shall not adversely affect the interests of the holders of the Bonds Similarly Secured;

(3) To make any changes or amendments requested by any Rating Agency, as a condition to the issuance or maintenance of a rating, which changes or amendments do not, in the judgment of the City, materially adversely affect the interests of the owners of the outstanding Bonds Similarly Secured;

(4) To make such changes, modifications or amendments as may be necessary or desirable, which shall not adversely affect the interests of the owners of the outstanding Bonds Similarly Secured, in order, to the extent permitted by law, to facilitate the economic and practical utilization of credit agreements with respect to the Bonds Similarly Secured including, without limitation, supplementing the definition of "Annual Debt Service Requirements" to address the amortization of payments due and owing under a credit agreement;

(5) To modify any of the provisions of this Ordinance in any other respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds Similarly Secured outstanding at the date of the adoption of such modification shall cease to be outstanding, and (ii) such modification shall be specifically referred to in the text of all Bonds Similarly Secured issued after the date of the adoption of such modification.

Notice of any such amendment may be published or given by the City in the manner described in subsection (b) of this Section; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

Section 36. CUSTODY, APPROVAL AND REGISTRATION OF BONDS; BOND COUNSEL'S OPINION, AND CUSIP NUMBERS. (a) Upon registration of the Bonds said Comptroller of Public Accounts (or a deputy designated in writing to act for said Comptroller) shall manually sign the Comptroller's Registration Certificate attached to the initial Bond, and the seal of said Comptroller shall be impressed, or placed in facsimile, on such Certificate. The approving legal opinion of the City's Bond Counsel (with an appropriate certificate pertaining thereto executed by facsimile signature of the City Secretary of the City) and the assigned CUSIP numbers may, at the option of the City, be printed on or attached to the Bonds issued and delivered under this Ordinance, but such additions or attachments shall not have any legal effect, and shall be solely for the convenience and information of the registered owners of the Bonds.

Section 37. UNAVAILABILITY OF AUTHORIZED PUBLICATION. If, because of the temporary or permanent suspension of any newspaper, journal or other publication, or, for any reason, publication of notice cannot be made meeting any requirements herein established, any notice required to be published by the provisions of this Ordinance shall be given in such other manner and at such time or times as in the judgment of the City shall most effectively approximate such required publication and the giving of such notice in such manner shall for all purposes of this Ordinance be deemed to be in compliance with the requirements for publication thereof.

Section 38. UTILITY BOARD. (a) Pursuant to the authority contained in Chapter 1502, as amended, Texas Government code, except as otherwise specifically provided in this Ordinance, the complete management and control of the System, during such time as the Bonds Similarly Secured outstanding and

unpaid, shall be vested in a Board consisting of five citizens of the United States of America, constituted as provided in this Section, to be known as the Utilities Board of McAllen. Said Board is referred to in this Ordinance as the Board or Board of Trustees. The Mayor of the Issuer or, as permitted by law, his designee shall, ex-officio, be one of the full voting members of the Board, and the remaining members of the Board shall consist of the following and serve terms as follows:

Ernest R. Williams, Chairman	Place D	Term expires 2017
Tony Aguirre, Jr., Vice Chairman	Place B	Term expires 2019
Charles Amos, Trustee	Place A	Term expires 2017
Albert Cardenas, Trustee	Place C	Term expires 2019

Veronica Vela Whitacre, Ex-Officio Member

The term of office of each member elected to the Board, after the initial terms of the members as provided above, shall be four years, except as otherwise may be provided by law. At the regular Issuer election held in May of odd numbered years, there shall be elected by the qualified electors of the Issuer successors for the members of the Board whose terms expires in such year. If for any reason one or more vacancies in memberships of the Board shall occur other than by expiration of term of office, a successor for the member whose membership so becomes vacant shall be selected by vote of the majority of the remaining members of the Board, and the successor so appointed shall hold office until the next May election of the odd-numbered years after his appointment.

If at any time in the future the Legislature shall adopt a law authorizing an increase in the number of members of the Board operating municipally-owned utilities, the City Commission of the Issuer may in its discretion provide for increasing the membership of the Board in such manner as it may provide.

(c) Removal of residence from the Issuer by any appointed member of the Board shall vacate his office as a member of the Board, and any member of the Board, other than one exofficio member, who shall be continuously absent from all meetings held by the Board for a period of four consecutive months shall, unless he shall have been granted leave of absence by the majority vote of the remaining members of the Board, constitute an automatic resignation as a member of the Board. If any member shall announce their candidacy, or shall in fact become a candidate for an election of any office of profit or trust other than such Board member's office when the unexpired term of such office then held shall exceed one-year, such announcement or such candidacy shall constitute an automatic resignation as member of the Board. Any members of the Board other than the ex-officio member may, by majority vote of the remaining members of the City Commission of the Issuer, be removed from office after public hearing, if requested, but only for adequate cause.

(d) Except as otherwise specifically provided in this Ordinance, the Board shall have absolute and complete authority and power with reference to the control, management and operation of the System and the expenditure and application of the revenues of the System subject to the provisions contained in this Ordinance, all of which shall be binding upon and shall govern the Board. In connection with the management and operation of the System and the expenditure and application of the revenues therefrom, the Board shall be vested will all of the powers of the Issuer with respect thereto, including all powers necessary or appropriate for the performance of all the covenants, undertaking and agreements of the Issuer contained in this Ordinance, and with the exception of fixing rates and charges for service rendered by the System (which powers are reserved by the City Commission of the Issuer) shall have full power and authority to make rules and regulations governing the furnishing of service to patrons of the System and for the payment of the same, and for the refusal of such services upon failure to pay therefor to the extent authorized by law and by this Ordinance.

(e) The Board shall enforce the rates, fees and charges for services rendered and to be rendered by the System as previously fixed by the City Commission of the Issuer, with due consideration being accorded to the terms, covenants and conditions contained in this Ordinances, and in the event operating experience indicates a necessity for the adjustment, either by an increase or a reduction of such rates, fees and charges, then the Board shall submit to the City Commission of the Issuer a full report of the basis upon which such proposed adjustment is predicated, accompanied by a formal request by the Board for approval and adoption of the rates, fees and charges recommended by the Board. If the City Commission of the Issuer approves the adjustment thus recommended by the Board it shall pass an appropriate ordinance placing such adjusted rates, fees and charges in effect, provided however that the rates, fees and charges for services rendered by the System shall never be reduced in such amounts as will impair the obligation of any of the covenants contained in this Ordinance.

(f) The Board annually shall elect one of its members as Chairman and one as Vice Chairman, and shall appoint a Secretary and Treasurer, or a Secretary-Treasurer, who may, but need not be, a member of members of the Board. If a member of the Board is not appointed as Secretary or Treasurer, or Secretary-Treasurer, then an employee or employees of the Board of Trustees may be appointed as Secretary or Treasurer or Secretary-Treasurer. The Board may follow and adopt such rules for the orderly handling of its affairs as it may see fit and may manage and conduct the affairs of the System with the same freedom and in the same manner ordinarily employed by the board of directors of private corporations operating properties of a similar nature, provided that said Board shall have at least one meeting monthly. Final action on matters coming before the Board shall be taken only in meetings open to the public.

(g) The Board shall appoint and employ all officers and employees which it may deem desirable, including a general manager of the System and an attorney or attorneys, provided the City Attorney of the Issuer shall be the chief legal advisor of the Board. To the extent practicable, the Board shall utilize the personnel and facilities of the Issuer, to reduce the expenses of maintaining and operating the System. All such services shall be rendered by the Issuer on an actual cost basis.

(h) The Board shall obtain and keep continually in force an employees fidelity and indemnity bond of so-called "blanket" type written by a solvent and recognized indemnity company and offering losses to the amount of not less than \$25,000.

(i) The members of the Board, including the ex-officio member shall receive annual compensation in the amount of \$600.

Section 39. NO RECOURSE AGAINST CITY OFFICIALS. No recourse shall be had for the payment of principal of or interest on any Bonds Similarly Secured or for any claim based thereon or on this Ordinance against any official of the City or any person executing any Bonds Similarly Secured.

Section 40. FURTHER ACTIONS. The Authorized Representatives of the City are hereby authorized, empowered and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge and deliver in the name and under the corporate seal and on behalf of the City all such instruments, whether or not herein mentioned, as may be necessary or desirable in order to carry out the terms and provisions of this Ordinance, the Bonds, the initial sale and delivery of the Bonds and the Paying Agent/Registrar Agreement. In addition, prior to the initial delivery of the Bonds, the Authorized Representatives and Bond Counsel are hereby authorized and directed to approve any technical changes or corrections to this Ordinance or to any of the instruments authorized and approved by this Ordinance necessary in order to correct any ambiguity or mistake or properly or more completely document the transactions contemplated and approved by this Ordinance or obtain the approval of the Bonds by the Texas Attorney General's office.

In case any officer of the City whose signature shall appear on any Bond shall cease to be such officer before the delivery of such Bond, such signature shall nevertheless be valid and sufficient for all purposes the same as if such officer had remained in office until such delivery.

Section 41. INTERPRETATIONS. All terms defined herein and all pronouns used in this Ordinance shall be deemed to apply equally to singular and plural and to all genders. The titles and headings of the articles and sections of this Ordinance have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. This Ordinance and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of the Bonds and the validity of the lien on and pledge of the Pledged Revenues to secure the payment of the Bonds.

Section 42. INCONSISTENT PROVISIONS. All ordinances, orders or resolutions, or parts thereof, which are in conflict or inconsistent with any provision of this Ordinance are hereby repealed to the extent of such conflict and the provisions of this Ordinance shall be and remain controlling as to the matters contained herein.

Section 43. INTERESTED PARTIES. Nothing in this Ordinance expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the City, the Bond Issuer and the registered owners of the Bonds, any right, remedy or claim under or by reason of this Ordinance or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Ordinance contained by and on behalf of the City shall be for the sole and exclusive benefit of the City, the Bond Insurer and the registered owners of the Bonds.

Section 44. INCORPORATION OF RECITALS. The City hereby finds that the statements set forth in the recitals of this Ordinance are true and correct, and the City hereby incorporates such recitals as a part of this Ordinance.

Section 45. SEVERABILITY. If any provision of this Ordinance or the application thereof to any circumstance shall be held to be invalid, the remainder of this Ordinance and the application thereof to other circumstances shall nevertheless be valid, and this governing body hereby declares that this Ordinance would have been enacted without such invalid provision.

Section 46. SALE OF BONDS. The Bonds are hereby sold and shall be delivered to the TEXAS WATER DEVELOPMENT BOARD at a price equal to the par amount thereof, less an origination fee payable to the Texas Water Development Board of 1.85% calculated pursuant to the Texas Water Development Board rules.

Section 47. APPROVAL OF BONDS. The Bonds have been purchased by the Texas Water Development Board pursuant to its Resolution No.16-062 adopted on June 14, 2016, which provides that the Bonds are being purchased from the Clean Water State Revolving Fund and that in accordance thereto the Executive Administrator of the Board will purchase the Bonds at the price set forth in Section 46, with all of the proceeds to be deposited in the Escrow Fund created in the Escrow Agreement herein below approved for future distribution into the Construction Fund as set forth therein.

Section 48. APPROVAL OF ESCROW AGREEMENT. The Mayor of the Issuer is hereby authorized and directed to execute and deliver and the City Secretary of the Issuer is hereby authorized and directed to attest an Escrow Agreement in substantially the form attached hereto as Exhibit C. The

moneys in the Escrow Fund upon authorization from the Development Fund Manager of the Texas Water Development Board shall be deposited into the Construction Fund as established herein.

Section 49. CONSTRUCTION FUND. There shall be established a Construction Fund (which shall be separate from all other accounts and funds of the Issuer) with the Issuer's depository bank and upon release of funds from the Escrow Fund such funds shall be deposited into this Construction Fund. The cost of issuance of the Bonds, being legal, fiscal and engineering fees, may be paid from this Fund. The cost of the construction of the Waterworks System improvements will be paid from this Construction Fund upon direction of the Issuer. All interest and profits from investments made with moneys in the Construction Fund shall remain on deposit in the Construction Fund as a part thereof. After completion of the payment of all costs of the Waterworks and Sewer System improvements, any residue remaining in the Construction Fund shall be applied in accordance with Section 53 hereof.

Section 50. FINAL ACCOUNTING. The Issuer shall render a final accounting to the Texas Water Development Board in reference to the total cost incurred by the Issuer for Sewer System improvements together with a copy of "as built" plans of the project upon completion.

Section 51. UNAUTHORIZED EXPENDITURES. If the Executive Administrator of the Texas Water Development Board disapproves construction of any portion of the project as not being in accordance with the plans and specifications, the Issuer shall, immediately after filing the final accounting, return to the Texas Water Development Board the amount of such cost as determined by the Executive Administrator relating to the parts of the project not constructed in accordance with the plans and specifications, to the nearest multiple of the denomination of the Bonds, whereupon the Texas Water Development Board shall cancel and return to the Issuer a like amount of said Bonds held by the Texas Water Development Board. The Bonds to be canceled and returned shall be chosen in inverse order of maturity. The remainder of any such excess, in an amount not to exceed \$5,000, shall be deposited to the Bonds Fund.

Section 52. INVESTMENTS AND SECURITY. That money in any Fund established pursuant to this Ordinance may, at the option of the Issuer, be invested in eligible investments described in the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, consistent with the investment policy approved by the City Commission. All investments shall be made in such manner as will, in the opinion of the Issuer, permit the money required to be expended from any Fund to be available at the proper time or times as expected to be needed. All funds mentioned in this Ordinance shall be secured in the manner and to the fullest extent permitted or required by law for the security of public funds, including the Public Funds Collateral Act (Chapter 2257, Government Code), and such funds shall be used only for the purposes and in the manner permitted or required by this Ordinance.

Section 53. SURPLUS PROCEEDS. That the Issuer shall use any surplus proceeds from the Bonds remaining after completion of the Sewer System improvements, to (1) to redeem, in inverse annual order, the Bonds owned by the Texas Water Development Board; (2) deposit into the Interest and Sinking Fund for the payment of interest or principal on the Bonds owned by the Texas Water Development Board; or (3) pay for eligible project costs as authorized by the Executive Administrator.

Section 54. COMPLIANCE WITH THE TEXAS WATER DEVELOPMENT BOARD'S RULES AND REGULATIONS. That the Issuer covenants to comply with the rules and regulations of the Texas Water Development Board, as long as the Bonds, or any of them, are owned by the Texas Water Development Board:

(a) Annual Audit Reporting. The Issuer shall provide to the Development Fund Manager of the Texas Water Development Board, without the necessity of a written request therefor, a copy of the Issuer's annual audit report, to be submitted without charge, within 120 days of the close of each Issuer fiscal year, prepared in accordance with generally accepted auditing standards by a certified public accountant or licensed public accountant and in compliance with 31 TAC 363.42.

(b) Insurance. The Issuer agrees to maintain casualty and other insurance of the System of a kind and in an amount customarily carried by municipal corporations owning and operating similar properties and an amount sufficient to protect the interests of the Texas Water Development Board in the Project

(c) Water Conservation Program. The Issuer agrees and covenants that it will implement an approved water conservation program in accordance with 31 TAC 363.15.

(d) Records and Accounts. The Issuer agrees and covenants that it will maintain current, accurate and complete records and accounts regarding the System in accordance with 31 TAC 375.71(a)(2)(G).

(e) Environmental Determinations. The Issuer agrees and covenants that it will comply with any special conditions of the Executive Administrator's environmental determination in accordance with 31 TAC 375.71(a)(8).

(f) Prohibition on Use of Proceeds. The Issuer covenants and agrees that none of the proceeds of the Bonds will be expended on costs incurred relating to the sampling, testing, removing or disposing of potentially contaminated soils and/or media at the project site.

(g) Indemnification. The Issuer further agrees, to the extent permitted by law, to indemnify, hold harmless and protect the Texas Water Development Board from any and all claims or causes of action arising from the sampling, analysis, transport, storage, treatment, removal and off-site disposition of any contaminated sewage sludge, contaminated sediments and/or contaminated media that may be generated by the Issuer, its contractors, consultants, agents, officials and employees as a result of activities relating to the Project.”

(h) Disadvantaged Business Enterprises Program. The Issuer covenants to provide documentation to the Texas Water Development Board that it has met the procurement requirements under the Disadvantaged Business Enterprises Program prior to release of funds for applicable goods or professional services.

Section 55. COVENANTS AND COMPLIANCE WITH THE TEXAS WATER DEVELOPMENT RESOLUTION APPROVING PURCHASE OF BONDS. The Texas Water Development Board, in Resolution No.16-062 adopted on June 14, 2016, requires that the City make the following covenants in this Ordinance:

(a) The City shall submit outlay reports with sufficient documentation on costs (e.g.; invoices, receipts) on a quarterly or monthly basis in accordance with the Texas Water Development Board's outlay report guidelines.

(b) All laborers and mechanics employed by contractors and subcontractors for projects shall be paid wages at rates not less than those prevailing on projects of a similar character in the locality in accordance with the Davis-Bacon Act, and the U.S. Department of Labor's implementing regulations. The City, all contractors, and all subcontractors shall ensure that all project contracts mandate compliance with Davis-Bacon.

(c) The City shall provide the Texas Water Development Board with all information required to be reported in accordance with the Federal Funding Accountability and Transparency Act of 2006, Pub. L. 109-282. The City shall obtain a Data Universal Numbering System ("DUNS") Number and shall register with System for Award Management ("SAM"), and maintain current registration at all times during which the Bonds are outstanding.

(d) All loan proceeds will be timely and expeditiously used, as required by federal statute and EPA regulations, and the City will adhere to an Executive Administrator-approved project schedule, which shall not be altered except for good cause shown and only with the written approval of the Executive Administrator.

(e) Prior to any action by the City to convey the Bonds to another entity, the conveyance and assumption of the Bonds must be approved by the Texas Water Development Board. The City must notify the Executive Administrator prior to taking any actions to alter its legal status in any manner, such as by conversion to a conservation and reclamation district or a sale-transfer-merger with another retail public utility.

(f) The City will abide by all applicable construction contract requirements related to the use of iron and steel products produced in the United States, as required by the 2014 Federal Appropriations Act and related State Revolving Fund Policy Guidelines.

Section 56. PUBLIC NOTICE. It is hereby officially found and determined that public notice of the time, place and purpose of said meeting was given, all as required by Chapter 551, Texas Government Code, and that no petition was received from the qualified electors of the Issuer protesting the issuance of the Bonds.

Section 57. ADOPTION OF ORDINANCE. This Ordinance was adopted on one reading to become effective immediately in accordance with Section 1201.028, Texas Government Code.

Section 58. EFFECTIVE DATE. This Ordinance shall become effective after passage by the City Commission.

EXHIBIT A

WRITTEN PROCEDURES RELATING TO CONTINUING COMPLIANCE WITH FEDERAL TAX COVENANTS

A. Arbitrage. With respect to the investment and expenditure of the proceeds of the Bonds, the City's Director of Finance (the "Responsible Person") will:

(i) monitor all amounts deposited into a sinking fund or funds (e.g., the Interest and Sinking Fund), to assure that the maximum amount invested at a yield higher than the yield on the Bonds does not exceed an amount equal to the debt service on the Bonds in the succeeding 12-month period plus a carryover amount equal to one-twelfth of the principal and interest payable on the Bonds for the immediately preceding 12-month period;

(ii) instruct the appropriate person or persons that the construction, renovation or acquisition of the facilities must proceed with due diligence and that binding contracts for the expenditure of at least 5% of the proceeds of the Bonds will be entered into within 6 months of the date of delivery of the Bonds ("Issue Date");

(iii) monitor that at least 85% of the proceeds of the Bonds to be used for the construction, renovation or acquisition of any facilities are expended within [3/5] years of the Issue Date;

(iv) restrict the yield of the investments to the yield on the Bonds after [3/5] years of the Issue Date;

(v) monitor all amounts deposited into a sinking fund or funds, e.g., the Interest and Sinking Fund, to assure that the maximum amount invested at a yield higher than the yield on the Bonds does not exceed an amount equal to the debt service on the Bonds in the succeeding 12 month period plus a carryover amount equal to one-twelfth of the principal and interest payable on the Bonds for the immediately preceding 12-month period;

(vi) assure that the maximum amount of any reserve fund for the Bonds invested at a yield higher than the yield on the Bonds will not exceed the lesser of (1) 10% of the principal amount of the Bonds, (2) 125% of the average annual debt service on the Bonds measured as of the Issue Date, or (3) 100% of the maximum annual debt service on the Bonds as of the Issue Date;

(vii) ensure that no more than 50% of the proceeds of the Bonds are invested in an investment with a guaranteed yield for 4 years or more;

(viii) maintain any official action of the City (such as a reimbursement resolution) stating its intent to reimburse with the proceeds of the Bonds any amount expended prior to the Issue Date for the acquisition, renovation or construction of any Certificate of Obligation financed facilities;

(ix) monitor the actions of any escrow agent (to the extent an escrow is funded with proceeds) to ensure compliance with the applicable provisions of the escrow agreement, including with respect to reinvestment of cash balances;

(x) ensure that the applicable information return (e.g., IRS Form 8038-G, 8038-GC, or any successor forms) is timely filed with the IRS; and

(xi) assure that, unless excepted from rebate and yield restriction under section 148(f) of the Code, excess investment earnings are computed and paid to the U.S. government at such time and in such

manner as directed by the IRS, and at least within 30 days after (A) every 5 years after the Issue Date, and (B) the date the Bonds are retired.

B. **Private Business Use.** With respect to the use of the facilities financed or refinanced with the proceeds of the Bonds the Responsible Person will:

(i) monitor the date on which the facilities are substantially complete and available to be used for the purpose intended;

(ii) monitor whether, at any time the Bonds are outstanding, any person, other than the City, the employees of the City, the agents of the City or members of the general public has any contractual right (such as a lease, purchase, management or other service agreement) with respect to any portion of the facilities;

(iii) monitor whether, at any time the Bonds are outstanding, any person, other than the City, the employees of the City, the agents of the City or members of the general public has a right to use the output of the facilities (e.g., water, gas, electricity);

(iv) monitor whether, at any time the Bonds are outstanding, any person, other than the City, the employees of the City, the agents of the City or members of the general public has a right to use the facilities to conduct or to direct the conduct of research;

(v) determine whether, at any time the Bonds are outstanding, any person, other than the City, has a naming right for the facilities or any other contractual right granting an intangible benefit;

(vi) determine whether, at any time the Bonds are outstanding, the facilities are sold or otherwise disposed of; and

(vii) take such action as is necessary to remediate any failure to maintain compliance with the covenants contained in the Ordinance related to the public use of the facilities.

C. **Record Retention.** The Responsible Person will maintain or cause to be maintained all records relating to the investment and expenditure of the proceeds of the Bonds and the use of the facilities financed or refinanced thereby for a period ending six (6) years after the complete extinguishment of the Bonds. If any portion of the Bonds is refunded with the proceeds of another series of tax-exempt obligations, such records shall be maintained until the six (6) years after the refunding obligations are completely extinguished. Such records can be maintained in paper or electronic format.

D. **Responsible Person.** The Responsible Person shall receive appropriate training regarding the City's accounting system, contract intake system, facilities management and other systems necessary to track the investment and expenditure of the proceeds and the use of the facilities financed or refinanced with the proceeds of the Bonds. The foregoing notwithstanding, the Responsible Person is authorized and instructed to retain such experienced advisors and agents as may be necessary to carry out the purposes of these instructions. If an error is discovered, the Responsible Person will promptly correct any such error within a reasonable amount of time of such discovery and take, or cause to be taken, such appropriate actions, including payment to the United States, if applicable, that is required to maintain the tax-exempt status of the Bonds.

EXHIBIT B

DESCRIPTION OF ANNUAL FINANCIAL INFORMATION

The following information is referred to in Section 25 of this Ordinance.

I. Annual Financial Statements and Operating Data

The financial information and operating data with respect to the Issuer to be provided annually in accordance with such Section includes the quantitative financial and operating data of the type included in Tables numbered 1 through 13 and in Appendix C in the Official Statements for each series of the Previously Issued Bonds.

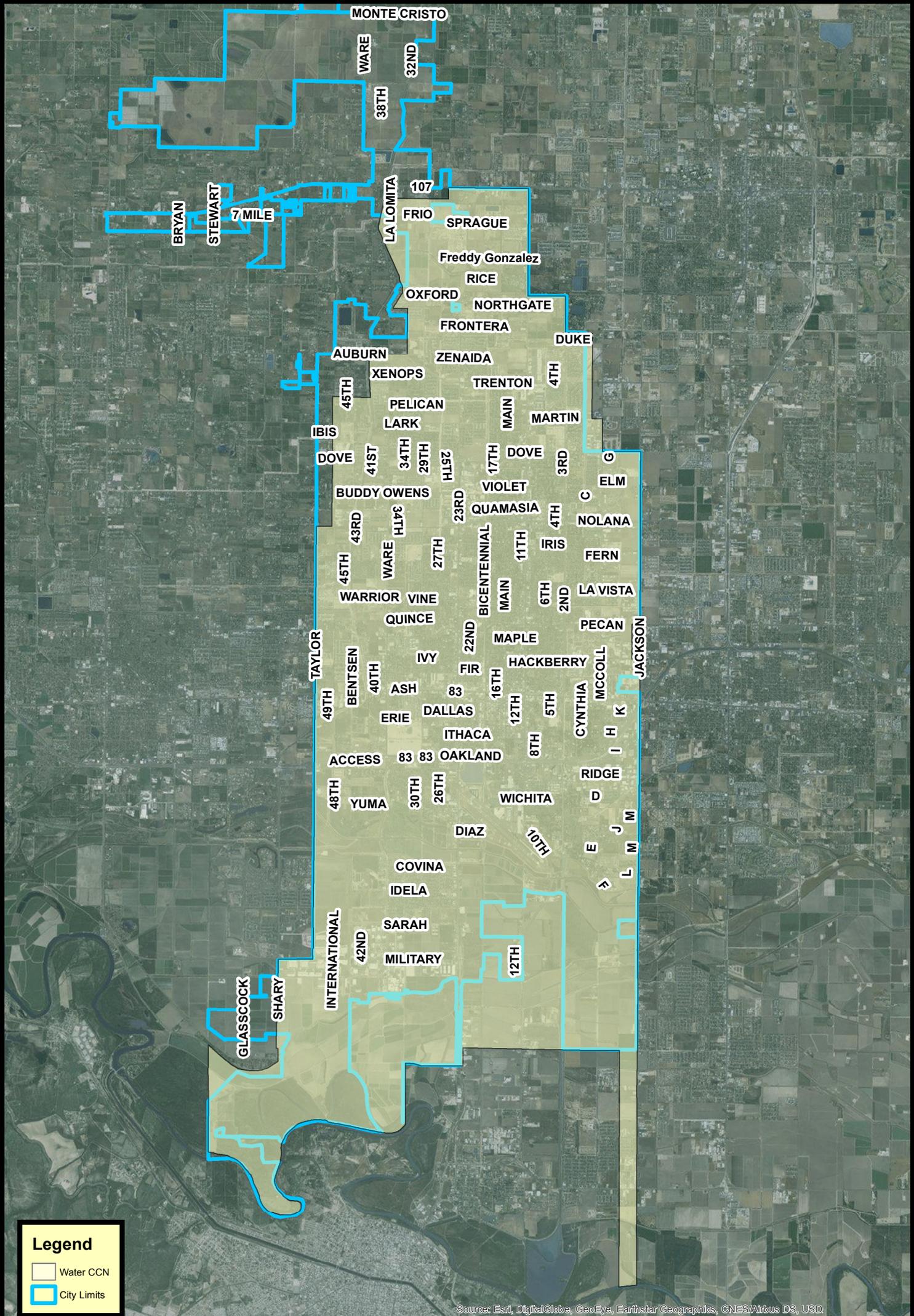
Accounting Principles

The accounting principles referred to in such Section are the accounting principles described in the notes to the audited financial statements referred to in paragraph 1 above.

EXHIBIT C

ESCROW AGREEMENT

**The Escrow Agreement Has Been Omitted at this Point as it Appears
in Executed Form Elsewhere in this Transcript.**



Legend

- Water CCN
- City Limits

Source: Esri, DigitalGlobe, GeoEye, Earthstar Geographics, CNES/Airbus DS, USDA, Getmapping, Aerogrid, IGN, IGP, swisstopo, and the GIS User Community

Municipality

Is the area to be served by the project within the service area of a municipality or other public utility?: N

Board Approved WCP

If the assistance requested is more than \$500,000 a Water Conservation Plan (WCP) is required. The WCP cannot be more than FIVE years old and must have been adopted by the applicant. Has the applicant adopted a Board-approved WCP? (Check one and attach requested information, if any.): Y

Enter date of Applicant's WCP adoption: 2018-05-14 00:00:00.0



*City of McAllen
McAllen Public Utility*

***WATER CONSERVATION
AND
DROUGHT CONTINGENCY PLAN
2017***

Revised and Updated March 2018

Approved _____

Date

**CITY OF MCALLEN
MCALLEN PUBLIC UTILITY**

WATER CONSERVATION AND DROUGHT CONTINGENCY PLAN

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I.

Sec. 106-116. - Introduction.

McAllen Public Utility (MPU) provides the public with its water and sewer services within the City limits. The water and wastewater system is owned and operated by the City of McAllen in Hidalgo County, Texas, and is governed by the McAllen Public Utility Board of Trustees. The amount of water the City water system can store, treat divert, and distribute to customers is limited. MPU wants to avoid waste or unreasonable use of water, which could lead to possible drought and emergency conservation strategies. With an expected population increase over the next fifty years that well exceeds the national average; it is imperative that we maximize efficient water use practices and minimize both direct and indirect water waste. While short-term water shortages and water supply emergencies are often unpreventable, response measures can be determined and implemented in advance to avoid, minimize, or mitigate the risks and impacts of drought-related water shortages and other emergencies.

The purpose of this plan is to establish a water conservation and drought contingency plan for the City in accordance with Texas Administrative Code Title 30, Chapter 288. The basic goal of the water conservation and drought contingency plan is to ensure an uninterrupted supply of water in an amount sufficient to satisfy essential human needs. The water conservation plan develops a conservation strategy for reducing the volume of water withdrawn from a water supply source, for reducing the loss or waste of water, for increasing the recycling and reuse of water, and for preventing the pollution of water. The drought contingency plan is a strategy for temporary supply management and demand management responses to temporary and potentially recurring water supply shortages and other water supply emergencies.

(Ord. No. 2009-56, § I, 9-14-09)

II.

Sec. 106-117. - Utility profile.

<https://www.census.gov/quickfacts/fact/table/mcallencitytexas/PST045216?#viewtop>

- (a) Demographics. MPU provides water supply and wastewater services within the city limits. The service area is 48.7 square miles. The 2010 U.S. Census data for the population of the city of McAllen is 129,877. The current estimated dynamic population in the winter, when long-term visitor counts are higher, is 138,398; and in the summer, the estimate is 132,338. This figure includes people who live in the city permanently, as well as winter visitors and people who commute here from Mexico. The McAllen city limits population has grown 1.80 percent annually over the past decade and is projected to continue to grow another 2 percent annually through 2018¹.

¹ http://www.retailattractions.com/Portals/20/market_report/McAllen_Texas_Market_Report.pdf

(b) Water supply.

- (1) Raw water supply. The Rio Grande River is the sole source of water for citizens of the City, and MPU has water delivery contracts with four districts, as follows:

Hidalgo County Irrigation District Number 1	4,000 acre ft/year
Hidalgo County Irrigation District Number 2	8,111 acre ft/year
Hidalgo County Water Improvement District Number 3	14,530 acre ft/year
United Irrigation District	11,250 acre ft/year
Brownsville Irrigation District	2,000 acre ft/year
Recent Purchase-NOT ALLOCATED	678 acre ft/year

- (2) Water treatment system. The City has two water treatment plants:
Southwest Water Treatment Plant: (rerated in 2010) 47.0 MGD
Northwest Water Treatment Plant: (rerated in 2011) 11.2 MGD
South west Ground well: (rated in 2012) 1.5 MGD
Total System Treatment Capacity: 59.7 MGD

- (3) Water pumpage and storage. Current annual pumpage for 2017 was 9.85 billion gallons of water. MPU has various pumps located at the Southwest Water Treatment Plant to pump raw water from the raw water reservoir into the plant facilities for treatment. The plant also has high service pumps to pump water from the ground storage tanks into the distribution system. MPU relies on elevated storage and high service pumps for pressure maintenance.

MPU has seven water towers with a total of 6.75 million gallons of elevated storage, and 11.9 million gallons of ground storage. All ground storage and elevated towers are monitored by a SCADA system. The system allows MPU to monitor flow data and record historical trends in the treatment and distribution system.

MPU has a total of 732.0 miles of water lines, of which approximately 16 percent are 12 inches in diameter or larger. The MPU system has 7,400 water valves and 5,000 active fire hydrants.

- (4) Water master plan. An updated water master plan was completed by Freese and Nichols, Inc. in July 2009 to evaluate the integrity of the existing water systems and to recommend a phased capital improvements plan to serve growth through 2025. The recommended improvements will serve as a basis for the design, construction and financing of facilities required to meet MPU's water service needs as a result of projected population growth.

- (c) Water use characteristics. MPU supplies water for residential, commercial, industrial, and public use. The total per capita use for the City in 2017 is estimated at 157 gallons per capita per day (gpcd)². This is an average taken by dividing the total water treated by the population

² Texas Water Development Board Water Conservation Annual Report

served. The residential gallons per capita per day are estimated at 119 gpcd². Residential gpcd is made by dividing total single-family and multi-family residential water sales by the population served.

(d)

The City's industrial users accounted for 3.7 percent of total water use. The largest volume industrial user for 2017 was Coca-Cola Company, which purchased approximately 75.84 MG of water, or .90 percent of total water usage.

Large sized meters, or those 1.5 inches and larger in size, make up only 3.3 percent of the meters used but use 33.3 percent of the water. Conversely, small sized meters, or those 1-inch and below, make up 96.7 percent of all meters, but account for less than 66.7 percent of metered sales.

(e) Unaccounted-for water. The City's unaccounted-for water is due to breaks, leaks, meter under-registration, processing, flushing mains, system loss, and un-metered fire hydrants. The amount of unaccounted for water is determined by the difference between production and sales of water. The average amount of unaccounted-for water loss for the past three years was 10.8 percent. The unaccounted-for loss of water for 2017 was 10.39 percent.

(f) MPU operates two wastewater treatment plants. Both treatment plants are based upon extended aeration activated sludge system, with secondary effluent limitations. Treated effluent is discharged into floodways and eventually into the Arroyo Colorado and Laguna Madre Estuary. The average annual treated wastewater volume for 2015-2017 was 13,115.96 million gallons. The average monthly amount of treated wastewater for that same period was 364.33 million gallons per month, or 12.14 MGD. The sanitary sewer infrastructure consists of 550 miles of sanitary sewer line, with 48 lift stations within the City of McAllen and 10 lift stations within the City of Alton.

The South Wastewater Treatment Plant is a 10.0 MGD design flow with 31.0 MGD peak flow capabilities. It is currently 61 percent hydraulically loaded with effluent limitations of 10 mg/l of carbonaceous biochemical oxygen demand; 15 mg/l of total suspended solids; 2 mg/l of ammonia nitrogen and E. coli, CFU or MPN/100 ml 126.

The North Wastewater Treatment Plant is an 15.0 MGD design flow with 28.125 MGD peak flow capability. The permit limitations include 10 mg/l of biochemical oxygen demand, and 15 mg/l of total suspended solids, 3 mg/l of ammonia nitrogen and 35 mg/L Enterococci bacteria.

(5) Wastewater master plan. An updated wastewater master plan was completed by Freese and Nichols, Inc. in July 2009 to evaluate the integrity of the existing wastewater systems and to recommend a phased capital improvements plan to serve growth through 2025. The recommended improvements will serve as a basis for the design, construction and financing of facilities required to meet MPU's wastewater service needs as a result of projected population growth.

The following is a description of the public utility system.

WATER SUPPLY AND USE DATA

2011 Data

Population: 129,877

Water Sources:

Hidalgo County Irrigation District Number 1	4,000 acre ft/year
Hidalgo County Irrigation District Number 2	8,111 acre ft/year
Hidalgo County Water Improvement District Number 3	14,530 acre ft/year
United Irrigation District	11,250 acre ft/year
Brownsville Irrigation District	2,000 acre ft/year
TOTAL:	39,891 acre feet/year

Water Production:

Average annual pumpage (3-year average 2015-2017): 8,514.582 MG/year

Maximum daily treatment capacity: 59.7 MGD

Average daily pumpage (3-year average): 23.33 MGD

Wastewater Production:

Average annual amount treated (4-year average 2014-2017): 4,369.2 MG/yr

Maximum daily treatment capacity: 31.0 MGD

Average daily treated: 12.0 MGD

(Ord. No. 2009-56, § I, 9-14-09)

III.

Sec. 106-118. - Water conservation goals.

Based on the data found in the utility profile and on careful evaluation of the City's water consumption and practices, MPU has set the following goals to be achieved through the adoption of this water conservation plan:

- (1) To reduce daily municipal per capita water use to 151 gpcd by the year 2023 and to maintain the unaccounted-for water loss at 10 to 12 percent by 2023. Also, to reduce daily municipal per capita water use to 148 gpcd by the year 2028 and to maintain the unaccounted-for water loss at 8 to 10 percent by 2028. At present, the gpcd 10-year average is 157 and the unaccounted-for water loss is at 10.8 percent.

- (2) To implement long term cost-effective recovery measures for major causes of unaccounted-for water related to metering. We have implemented a meter change out policy that requires all meters to be changed out after 12 years or 1.5 MG of total flow and an aggressive meter testing program to identify and deal with problem meters. A 2017 audit reflected that our program is working.
- (3) To increase both public and employee awareness regarding water conservation and water related issues. This will especially be encouraged during summer months when water consumption increases significantly.
- (4) To investigate the potential for wastewater effluent reuse.
- (5) To promote xeriscape landscape use like low-water using shrubs and plants, patios, rocks, decks, and walkways in order to reduce the amount of high water consuming landscape area. Businesses as well as residential users will be encouraged to participate.
- (6) To promote more efficient irrigation techniques for agriculture, industry, and private use through rebates, retrofit, and education.
- (7) A full time water education specialist is on staff. This specialist will be developing conservation programs and educational offerings to both public and school children audiences to enhance understanding of water utility systems as well as promote water conservation and prevention of pollution of water resources.
- (8) Wholesale customers will be required to implement and adhere to a water conservation and drought contingency plan. Currently, no wholesale contracts exist.
- (9) MPU will strive to attain a 2 percent reduction goal during water conservation stages.

(Ord. No. 2009-56, § I, 9-14-09)

IV. Sec. 106-119. - Water conservation strategies.

McAllen Public Utility will periodically provide the public with bilingual information about the Drought Contingency Plan, including information about the conditions under which each stage of the Drought Contingency Plan is to be initiated or terminated and the drought response measures to be implemented in each stage. This information will be provided by means of, but not limited to, an appropriate combination of the following items:

- Public service announcements on the McAllen Cable Network.
- Internal and external newsletter announcements and information.
- Press releases, media alerts and social media campaigns.
- Distribution of pamphlets, brochures, and fact sheets.

- Including summarized information, tips, and conservation practices on the McAllen Public Utility website.
- Host special events for McAllen citizens that promote water conservation efforts which include: World Water Day, Drinking Water Week, Customer Service Week, and the Annual Night Out.
- Participate in special public events and educational offerings, by having booths at festivals or fairs.
- Public Water and Wastewater Plant tours.
- Water education presentations and workshops for McAllen-area schools.
- Water education camps for children.
- Water education through organizations such as the International Museum of Art and Science and Quinta Mazatlan.

McAllen Public Utility's Water Education and Communications Coordinator will make every effort to continue to inform citizens, improve awareness and promote ongoing water conservation efforts within the city of McAllen.

Recycling and reuse. MPU currently has a recycle or reuse program for water via irrigation of treated wastewater effluent on the City's golf course. Additionally, MPU has contracts to sell Calpine and Magic Valley Generation not to exceed 4.8 MGD, respectively, of treated wastewater effluent for reuse. MPU began constructing a reuse line in 2011 that will eventually supply the Convention Center District and the City's nearby Westside Park with treated wastewater effluent for irrigation and landscape feature use such as decorative water fountains and other water features.

(a) Metering devices and universal metering.

- (1) Metering devices. New meters, 2 inches and smaller in size, are bought according to the latest revision of "AWWA New Meter Standard for Cold-Water Meters" in order to specify all materials, design, manufacture, and testing of all meters. The manufacturer will guarantee that all new meters will test at 98.1 to 101 percent accurate at the maximum rate and 95 to 101 percent at the "low flow" rate as designed by AWWA Standards Manual M-6 on a meter size for size basis. This ensures accurate and precise measurement of water diverted.

Older meters that may be registering too high or low will be replaced as time permits in order to accurately account for water and lower any unaccounted-for water loss.

- (2) Metering. MPU currently meters all water usage except that of fire hydrants and water loss due to leaks, breaks, processing, flushing of mains, and system loss. MPU, however, does keep track of water used by fire hydrants through the city fire department and distribution department.

MPU uses computers to maintain billing, to keep accurate records of water consumption, and to identify high and low water users. MPU will test all meters that appear to show unusually high or low water usage based on fluctuating meter data.

Water distribution tests meters based on an "as needed" basis when customers complain or a problem arises.

The MPU water distribution department is responsible for maintaining all 56,992 connections. Meter readers use a portable meter tester and/or a read-a-flow recorder to test meters in the field. When meters cannot be read in the field, they are taken into a meter shop to be assessed. Priority is always given to water leaks with all other tasks including, service calls, maintenance calls, and other water distribution projects.

Meter management study. In February 2017, JBS Water, Inc. prepared a report of meter management study for the utility. The study included an analysis of production and metered sales from January 2013 to January 2017, and of individually metered water consumption accounts from January 2013 to January 2017. The report made recommendations that are currently being utilized, such as the recommendation to implement quarterly testing of meter accuracy in the case of zero-consumption or low-use accounts.

- (b) Water distribution audit and leak survey. In February 2017, JBS Associates, Inc. completed a water distribution audit and leak survey. The audit was conducted to determine causes for unaccounted-for water and develop recommendations for unaccounted-for water recovery in a cost-effective manner. This audit and leak survey is conducted every 5 (5) years at a minimum.

A continuous leak detection and repair program is carried out by MPU. Meter readers also check for leaks while reading meters and performing regular maintenance. For the year 2017, a full-scale leak detection project was implemented.

- (c) Plumbing codes and retrofit program. The City does have plumbing codes pursuant to the 2006 standard plumbing code issued from the International Code Council. Additionally, the 72nd Texas Legislature passed legislation which requires plumbing fixtures sold in the state after January 1, 1992 to meet strict standards that incorporate efficient water use and conservation in new structures. This law subsequently effects plumbing fixtures sold in the City and will help to eliminate inefficient plumbing fixtures.

MPU does encourage businesses and homeowners to replace older water fixtures like low-flow showerheads, faucet aerators, and toilet dams, purchased before January 1, 1992, with the newer water efficient replacements. MPU will also advocate the use of low demand water appliances instead of older, high use ones in homes and businesses.

- (d) Water conservation landscaping. When practical, MPU will advocate the use of drip irrigation for the watering of landscapes for commercial establishments. Also, the use of ornamental fountains will be discouraged except when they recycle and use minimal quantities of water.

MPU will continue to work with the City parks and recreation department in order to eliminate any wasteful water use. The watering of parks for example will be evaluated and done according to efficient water conserving methods. Municipal pools will also be evaluated for efficient water use.

Local landscape architects and local nurseries will be asked and encouraged to utilize efficient irrigation systems and native low water using plants and grasses. Xeriscape gardening and landscaping techniques will also be asked to be promoted.

Licensed irrigation contractors will be asked to use drip irrigation systems, where possible, and to use water conserving irrigation systems like sprinklers which produce large drips instead of a fine mist and a sprinkler layout which accommodates prevailing wind patterns.

- (e) Conservation oriented water rate structure. The City has established three schedules of rates to be charged for the consumption of water supplied through the City water system, as follows:
- (1) Standard water rate schedule within the City for City customers under the City's certificate of convenience and necessity.
 - (2) Standard water rate schedule for areas previously covered by Sharyland Water Supply Corporation certificate of convenience and necessity relating to any buyout phases whereby the City has entered into agreements with Sharyland Water Supply Corporation for buyout of their certified area.
 - (3) Standard water rate schedule outside the City

The standard rate to be charged for water furnished and consumed by single-family residence, multi-family, commercial, and industrial customers within the City is as follows:

- (1) Base meter charge: \$8.45 per meter
- (2) Commodity charge: Approved September 23, 2017.

Residential: \$1.35 per 1,000 gallons for the first 7,999 gallons and \$1.65 for 8,000 to 12,999 and \$1.95 per 1,000 gallons thereafter.

Multi-family: \$1.35 per 1,000 gallons for all usage under last fiscal year's average monthly usage, and \$1.95 per 1,000 gallons for all usage above last fiscal year's average monthly usage.

Commercial: \$1.35 per 1,000 gallons for all usage under last fiscal year's average monthly usage, and \$1.95 per 1,000 gallons for all usage above last fiscal year's average monthly usage.

Industrial: \$1.35 per 1,000 gallons for all usage under last fiscal year's average monthly usage, and \$1.95 per 1,000 gallons for all usage above last fiscal year's average monthly usage.

Irrigation/pool services: \$1.95 per 1,000 gallons.

Water and sewer rates are periodically evaluated and updated as needed, so the above information is subject to future change.

- (f) A monitoring and records management program is in place for tracking annual budget allocation for Hidalgo County Irrigation District No. 1, Hidalgo County Irrigation District No. 2, Hidalgo County Irrigation District No. 3, United Irrigation District and Brownsville Irrigation District to determine water deliveries, sales and losses.

(Ord. No. 2009-56, § I, 9-14-09)

V.

106-120. – Drought Contingency Plan

In order to conserve the available water supply and protect the integrity of water supply facilities, with particular regard for domestic water use, sanitation, and fire protection, and to protect and preserve public health, welfare, and safety and minimize the adverse impacts of water supply shortage or other water supply emergency conditions, the City of McAllen/McAllen Public Utility hereby adopts the following regulation and restrictions on the delivery and consumption of water.

Water uses regulated or prohibited under this Drought Contingency Plan (Drought Plan) are considered to be non-essential and continuation of such uses during times of water shortage or other emergency water supply conditions are deemed to constitute a waste of water which subjects the offender(s) to penalties as defined in this section.

A. Public Involvement

Opportunity for the public to provide input into the preparation of the Drought Plan was provided by the MPU by scheduling and providing notice of public meetings considering adoption of the Water Conservation and Drought Contingency Plan.

B. Public Education

MPU will periodically provide the public with information about the Drought Plan, including information about the conditions under which each stage of the Drought Plan is to be initiated or terminated and the drought response measures to be implemented in each stage. This information

will be provided by means of periodic publications in the local newspaper and utility bill inserts or mail-outs.

C. Coordination with Regional Water Planning Groups

The service area of the MPU is located within the Lower Rio Grande Valley and MPU has provided a copy of this Water Conservation and Drought Contingency Plan to the Lower Rio Grande Valley Development Council.

D. Implementation and Enforcement

The General Manager or his designee is hereby authorized and directed to implement the applicable provisions of this Drought Plan upon the determination that such implementation is necessary to protect public health, safety, and welfare. The General Manager, or his designee, shall have the authority to initiate or terminate drought or other water supply emergency response measure as described in this Plan. In the case of an emergency situation, such as a canal breakdown, pump failures, line ruptures, ect., the General Manager is authorized to take immediate actions deemed necessary to minimize or mitigate the risks and impacts of the water supply emergency.

VI.

106-121. - Triggering criteria for drought response stages.

The general manager *or* his or her designee shall monitor water supply and demand conditions on a monthly basis and shall determine when conditions warrant initiation or termination of each stage of the plan. Notification will be made through major media outlets. The designated City representative will notify water users when water use restrictions have been eased due to lessening of drought conditions.

The triggering criteria described below are based on the level of the United States share of water in the Falcon-Amistad Reservoirs as reported by the TNRCC watermaster, and demand on the municipal system capacity. The stages of the drought plan may be rescinded when all of the conditions listed as triggering events have ceased for a period of three (3) consecutive days. **Any one** of the triggers listed below *may* cause the utility to initiate water restrictions.

Current as of 2017 WTP capacities:

Southwest Water Treatment Plant: rerated in 2010, 47.0 MGD

Northwest Water Treatment Plant: rerated in 2011, 11.25 MGD

South west Ground well: (rated in 2012) 1.5 MGD-**added**

Total System Treatment Capacity: 59.75 MGD

Table 3. Demand, Supply and Emergency Triggers

	Trigger	Action
Demand Triggers	Water demand reaches or exceeds 85 percent of delivery capacity for three (3) consecutive days (<i>currently 50.78 MGD</i>)	Public Utility Board may enact Stage Two water restrictions
	Water demand reaches or exceeds 90 percent of delivery capacity for three (3) consecutive days (<i>currently 53.78 MGD</i>)	Public Utility Board may enact Stage Three water restrictions
	Water demand reaches or exceeds 95 percent of delivery capacity for three (3) consecutive days (<i>currently 56.76 MGD</i>)	Public Utility Board may enact Stage Four water restrictions
	Water demand reaches or exceeds 100 percent of delivery capacity at any time (<i>currently 59.75 MGD</i>)	Public Utility Board may enact Stage Five water restrictions
Supply Triggers	Stage One Water Restrictions at all time unless:	
	Reservoir levels of Amistad/Falcon reach 40 percent of capacity	Public Utility Board may enact Stage Two water restrictions
	Reservoir levels of Amistad/Falcon reach 25 percent of capacity	Public Utility Board may enact Stage Three water restrictions
	Reservoir levels of Amistad/Falcon reach 20 percent of capacity	Public Utility Board may enact Stage Four water restrictions
	Reservoir levels of Amistad/Falcon reach 15 percent of capacity	Public Utility Board may enact Stage Five water restrictions
Emergency Triggers	As determined by utility general manager, including but not limited to system outage, equipment failure, or supply source contamination	Reduce water use to levels deemed necessary

VII.

Sec. 106-122. - Drought response stages.

The City/City public utility has an emergency conservation plan that outlines five stages for possible water shortage and/or emergency conditions. A brief description is summarized below.

(1) **Stage One: Voluntary conservation.** Voluntary conservation is the first stage of the conservation program. It is always in force unless a higher stage is required and enacted. Customers of the City utility during Stage One are requested to voluntarily limit the amount of water used to that amount absolutely necessary for health, business, and irrigation. Notice of such request shall be given by the general manager through appropriate circulars, television, radio, and newspaper media at his or her discretion.

(2) **Stage Two: Mandatory compliance-water alerts.** During Stage Two, MPU will aim to reduce per capita consumption by 2 percent. The following restrictions shall apply to all persons:

a. Irrigation of outdoor vegetation shall be limited except for during the days and times as provided in this section and in such zones as designated herein. Irrigation by drip method or hand-held buckets is permitted at any time in any zone.

Zone 1: Northern City limits on the north, 10th Street on the east, Nolana Avenue on the south and western City limits on the west—Sunday and Wednesday during the time periods as provided for below.

Zone 2: Northern City limits on the north, eastern City limits on the east, Nolana on the south and 10th Street on the west—Monday and Thursday during the time periods as provided for below.

Zone 3: Nolana on the north, 10th Street on the east, Business 83 on the south and western City limits on the west—Tuesday and Friday during the time periods as provided for below.

Zone 4: Nolana on the north, eastern City limits on the east, Business 83 on the south, 10th Street on the west—Wednesday and Saturday.

Zone 5: Business 83 on the north, 10th Street on the east, southern City limits on the south and western City limits on the west—Thursday and Monday during the times as provided for below.

Zone 6: Business 83 on the north, eastern City limits on the east, southern City limits on the south, and 10th Street on the west—Friday and Tuesday during the time period as provided below.

Table 4. Map of City Irrigation Zones

Zone 1	10 th Street	Zone 2
Nolana Avenue		
Zone 3		Zone 4
		Business Highway 83
Zone 5		Zone 6

Irrigation may only be conducted during the hours of midnight to 10 a.m. and 6 p.m. to midnight on the authorized days.

b. The washing of automobiles, trucks, trailers boats, airplanes and other types of mobile equipment is prohibited except on designated irrigation days between the hours of 6 p.m. to 10 a.m. Such washing, when allowed, shall be done with a handheld bucket or a handheld hose equipped with a positive shutoff nozzle for quick rinses.

Exception: Washing may be done at any time on the immediate premises of a commercial carwash or commercial service station. Further, such washing may be exempted from this provision if the health, safety and welfare of the public is contingent upon frequent vehicle cleaning, such as garbage trucks and vehicles to transport food and perishables.

c. The washing or sprinkling of foundations is prohibited except on designated irrigation days between the hours of 8 p.m. and 12 midnight.

d. The refilling or adding of water to residential swimming and/or wading pools is prohibited except on designated irrigation days between the hours of 8 p.m. to 10 a.m.

e. The operation of any ornamental fountain or other structure making similar use of water is prohibited except for those fountains or structures with a recycling system.

f. The use of water for irrigation for golf greens and tees is prohibited except on designated irrigation days between the hours of 6 p.m. to 10 a.m.

The irrigation of golf course fairways is absolutely prohibited. Provided, however, any golf course utilizing wastewater effluent or raw water is exempted from the provision of this division.

g. Use of water from fire hydrants shall be limited to firefighting and related activities, and/or other governmental use activities necessary to maintain the health, safety, and welfare of the citizens of the City.

h. The following uses of water are defined as waste of water and are absolutely prohibited:

1. Allowing irrigation water to ran off into a gutter, ditch or drain;
2. Failure to repair a controllable leak;
3. Washing sidewalks, driveways, parking areas, tennis courts or other paved areas, except to alleviate immediate fire hazards.

i. No bulk water sales shall be made from City or other sources for any purpose when such water will be transported by any tanker truck or similar type vehicle.

(3) Stage Three: Mandatory compliance-water warning. During Stage Three, the following restrictions shall apply to all persons. All elements of Stage Two, including the goal of 2 percent reduction of water use per capita, shall remain in effect in Stage Three except that:

a. It shall be unlawful for any person to irrigate any outdoor vegetation other than in zones and on the days as designated in Stage Two and only during the hours of midnight to 10 a.m. and 7 p.m. to midnight on such designated days. Irrigation by drip or hand-held buckets is permitted at any time in any zone.

b. The watering of golf fairways areas is prohibited unless done with treated wastewater, reused water, or well water.

A water surcharge shall be levied against all customers in the following amounts:

1. Residential/domestic metered customers (5/8 inch 3/4-inch 1-inch meters) shall pay a 50 percent surcharge for any water used over an amount of 15,000 gallons per month.

2. Those irrigation-metered customers shall pay a 50 percent surcharge for any water used over 10,000 gallons per month.

3. Those commercial and industrial metered customers shall pay a 10 percent surcharge for any water used over an amount equal to 80 percent of the maximum monthly consumption over any one billing cycle out of the last 12 months preceding the month in which the Stage Three designation was implemented.

(4) Stage Four: Mandatory compliance-water shortages. During Stage Four, the following restrictions shall apply to all persons. All elements of Stage Three, including the goal of 2 percent reduction of water use per capita, shall remain in effect in Stage Four except that it shall be unlawful for any person to irrigate any vegetation outdoors except on the following designated days in the zones established herein:

1. Zone 1 - Sunday
2. Zone 2 - Monday
3. Zone 3 - Tuesday
4. Zone 4 - Wednesday
5. Zone 5 - Thursday
6. Zone 6 - Friday

And only during the times established under Stage Three of this section.

a. All outdoor irrigation of vegetation shall be allowed only between the hours of midnight to 10 a.m. and 8 p.m. to midnight on designated days.

b. The washing of automobiles, trucks, trailers, boats, airplanes, and other types of mobile equipment not occurring upon the immediate premises of commercial carwashes and commercial service stations and not in the immediate interest of the public health, safety and welfare shall be prohibited except on designated irrigation days and only on the owners of such vehicles, etc., premises.

c. Carwashes and commercial service stations in the immediate interest of the public health, safety and welfare shall be limited to 50 percent of their monthly average usage based on the last 12 billing periods for each of such customer. After such usage, the general manager shall enforce this subsection by terminating water service.

d. Commercial nurseries, commercial sod farmers, and similarly situated establishments shall water only on designated days between the hours of 10 p.m. and 5 a.m. and shall use only handheld hoses, drip irrigation systems, or handheld buckets.

e. The filling, refilling or adding of water, except to maintain the structure integrity of the pool, to swimming and/or wading pools is prohibited.

f. The operation of any ornamental fountain or similar structure is prohibited.

g. A water surcharge shall be levied against all customers during Stage Four in the following amounts:

1. Residential/domestic metered customers (5/8- inch, 3/4-inch, and 1-inch meters) shall pay a 75 percent surcharge for any water used over an amount 10,000 gallons per month.
2. Those irrigation-metered customers shall pay a 75 percent surcharge for any water used.
3. Those commercial and industrial metered customers shall pay a 10 percent surcharge for any water used over an amount equal to 60 percent of the maximum monthly consumption over any one billing cycle out of the last 12 months preceding the month in which the Stage Four designation was implemented.

(e) **Stage Five: Mandatory compliance-water shortage emergency.** During Stage Five, the following restrictions shall apply to all persons. All elements of Stage Four, including the goal of 2 percent reduction of water use per capita, shall remain in effect in Stage Five except that:

- (1) No applications for new, additional, further expanded, or increased-in-size water service connections, meters, service lines, pipeline extensions, mains, or other water service facilities of any kind shall be allowed, approved or installed except as approved by the public utility board.
- (2) All allocations of water use to non-essential industrial and commercial customers shall be reduced to amounts as established by the public utility board.
- (3) The maximum monthly water use allocation for residential customers may be established with revised rate schedules and penalties by the board of commissioners on recommendation by the public utility board.
- (4) Irrigation is permitted only by:
 - a. Continuously handheld hoses;
 - b. Handheld or faucet filled bucket;
 - c. Drip irrigation during the hours from 6 a.m. to 8 a.m., once every 10 days, by a schedule established by the general manager.
- (5) The washing of automobiles, trucks, trailers boats, airplanes, and other types of mobile equipment not occurring upon the immediate premises of commercial carwashes and commercial service stations and not in the immediate interest of the public health, safety and welfare shall be prohibited.
- (6) A water surcharge shall be levied against all customers during Stage Five in the following amounts:

- a. Residential/domestic metered customers shall pay a 100 percent surcharge for any water used over an amount of 8,000 gallons per month.
- b. Those irrigation-metered customers shall pay a 100 percent surcharge for any water used.
- c. Those commercial and industrial metered customers shall pay a 10 percent surcharge for any water used over an amount equal to 20 percent of the maximum monthly consumption over any one billing cycle out of the last 12 months preceding the month in which the Stage Five designation was implemented.

VIII.

Sec. 106-123. - Variances.

The general manager, or his designee, may grant temporary variance from the provisions of the drought plan if the person requesting the variance can satisfactorily demonstrate that failure to grant such variance would adversely affect the health, sanitation, or fire protection for the public or the person requesting such variance, and if one or more of the following conditions are met:

- (1) Compliance with this plan cannot be technically accomplished during the duration of the water supply shortage or other condition for which the plan is in effect.
- (2) Alternative methods can be implemented which will achieve the same level of reduction in water use.

(Ord. No. 2009-56, § I, 9-14-09)

IX.

Sec. 106-124. - Penalty of violation.

Any person violating any provision of the water conservation plan after order and notice as specified in this division shall be deemed guilty of an offense, and, upon conviction, shall be punished as prescribed in this Code, section 1-14, provided, however, a first offense shall be punishable by a fine of not to exceed \$200.00, exclusive of court costs. In the event of a second subsequent conviction of said person for violating any provision of this division during an emergency conservation period, the minimum fine shall be not less than \$300.00 exclusive of court costs. A third conviction during the emergency conservation period by the same person shall be punished by a fine of not less than \$400.00 exclusive of court costs. The violation of each provision of this division, and each separate violation thereof, shall be deemed a separate offense, and shall be punished accordingly. Provided, however, compliance may be further sought through injunctive relief in the district court.

For purposes of this division, in any case where water has been used in any manner contrary to any provision of this section, It shall be presumed that the person, individual corporation, or partnership in whose name a water meter connected is registered with the utility department as the customer on the water account for the property where the violation occurs or originates shall be presumed to be the violator.

It shall be presumed that the utility customer has intentionally and knowingly, recklessly, or negligently made, caused, used, or permitted to be used, the water in such a contrary manner.

In any prosecution charging a violation of this section: Proof that the violations occurred in this property serviced by the utility connection the name of the account holder thereof shall constitute in evidence a prima facie presumption that the registered customer of such account was the person responsible at the place and time during which such violation occurred.

Any police officer or authorized utility department personnel may:

Issue citations for violations of this division to the person he reasonably believes to be in violation of this article. The citation shall be prepared in duplicate and shall contain the name and address of the violator, if known, the offense charged and shall direct such person to appear at the city municipal court no later than ten days from the date of service of the citation.

The alleged violator shall be requested to sign the citation and shall be served a copy of the citation. Service of the citation shall be complete upon the attempt to give it to the alleged violator, to an agent or employee of the violator or to a person over 14 years of age who is a member of the violator's family or a resident at the violator's residence. In the event no person is available to sign the complaint, a copy of the complaint shall be left at the address of the violator, which shall constitute notice of violation.

Corporations will be served in accordance with the Code of Criminal Procedure.

Police department citations issued for violations of this section shall be of the same force and effect as a citation issued under section 61-2 of this Code. The utility department personnel citations issued for violations of this division will provide that if a person fails to answer such citation, that a municipal court complaint will be sworn to upon a failure to respond to the citation.

Upon continuous violations of any mandated stage, the general manager may provide for a notice of disconnections of water services for deferred periods. Anyone receiving such notice may appeal the same to the utility board by giving written notice therefore, within 72 hours of receipt of notice of disconnection. Prior to the reconnection of service, the standard reconnection fee shall be paid.

X.

Sec. 106-125. - Administrative penalties.

- (a) In lieu of the charge for violation of the division as set out in section [106-124], the general manager may provide that any person violating, shall be subject to an administrative charge being added to their monthly utility bill, which such charge shall be payable as part of the monthly water utility bill. Such payment shall be subject to the disconnecting procedures as set out in section 106-221 of this chapter, including the right to appeal such disconnect notice to the general manager's authorized representative, as set out in such section.
- (b) Police officers or utility department personnel may issue notice of violation and notice of administrative charge to be imposed when such officer or personnel reasonably believes that a violation of the article has occurred. The administrative charge shall be established by minute order of the public utility board from time to time, and shall compensate the public utility system for activities such as issuing citations, inspecting properties, administering its conservation program including public education. Such charge may be tiered based on the number of frequency of violations and the public health concerns relating to various stages of conservation measures.
- (c) A notice of administrative charge shall be left, when possible, at the structure at the location of the violation of the city's conservation ordinance.
- (d) The person receiving such administrative notice or the person responsible for the account under which the administrative charge will be assessed, may appeal the imposition of the administrative assessment prior to the issuance of the utility bill by contacting the general manager or his authorized representative if such party believes there has been an error in such charge or there is some other reason there is no justification for the charge being issued. The general manager or his authorized representative is hereby authorized to make determinations concerning the assessment of administrative charges, upon the appeal of any such parties.

(Ord. No. 2009-56, § I, 9-14-09)

NOTE: The above is a draft submittal only, our water conservation plan is still in need of final official signature implemented by commissioners showing that the plan was approved and adopted. The City of McAllen is scheduled to conduct its next board meeting on May 14th, 2018, once conservation plan is adopted and signed we will proceed to submitting the final copy.

Retail Water Services

Does the applicant provide retail water services?: Y

If yes, has the applicant already submitted to the TWDB the annual water use survey of groundwater and surface water for the last THREE years?: Y

Potable Water Services

Is the applicant a retail public utility that provides potable water?: Y

If yes, has the applicant already submitted a most recently required water loss audit to the TWDB?: Y

Provide Wastewater Services

Does the applicant provide wastewater services?: Y

Provide Regional or Wholesale Water Services

Does the applicant provide regional or wholesale water services?: Y

List the top TEN customers of the system by annual usage in gallons and percentage of total usage, including whether any are in bankruptcy.

Customer Name	Annual Usage (gal)	Percent of Usage	Bankruptcy (Y/N)
City of Edinburg	178,858,000	0.02%	N
City of Hidalgo	95,478,000	0.01%	N
City of Mission	2,483,300	0.00%	N

Comments:

Provide a summary of the wholesale contracts with customers.

Contract Type	Minimum Annual Amount	Usage Fee Per 1000 Gallons	Annual Operations and Maintenance	Annual Capital Costs	Annual Debt Service	Other
City of Edinburg	\$22,800	\$1.2	\$0	\$0	\$0	\$0
City of Edinburg	\$24,600	\$1.35	\$0	\$0	\$0	\$0
City of Mission	\$0	\$1.8	\$0	\$0	\$0	\$0

Top Ten Customers of Water System

Top Ten Water Customers

Customer Name	Annual Usage (gal)	Percent of Total Water Revenue	Bankruptcy (Y/N)
City of McAllen Parks & Rec	250,782,000	2.92%	N
Magic Valley Fresh Frozen	90,301,000	0.82%	N
City of Edinburg	72,516,000	0.61%	N
Coca Cola Bottling Co	70,911,000	0.61%	N
Rio Grande Regional Hospital	56,043,000	0.51%	N
City of McAllen	51,129,000	0.56%	N
South Texas College	49,372,000	0.54%	N
McAllen Medical Center Hospital	37,448,000	0.33%	N
Simon Properties Stores	36,305,000	0.34%	N
City of Hidalgo	31,714,000	0.32%	N

Top Ten Water System Customers Comments:

Current average Residential Usage and Rate Information

Service	Date of Last Rate Increase	Avg. Monthly Usage (gallons)	Avg. Monthly Bill (\$)	Avg. Monthly Increase Per Customer (\$)	Projected Monthly Increase Necessary (\$)	Anticipated Date of Projected Rate Increase (Date)
Water	10-01-2017	7,630	\$20.06	\$0.5	\$0	

Top Ten Customers of Wastewater System

Top Ten Wastewater Customers

Customer Name	Annual Usage (gal)	Percent of Total Water Revenue	Bankruptcy (Y/N)
City of Alton	446,922,000	3.79%	N
Superior Foods Inc	86,107,000	0.63%	N
Rio Grande Regional Hospital	46,891,000	0.50%	N
Coca Cola Southwest Beverages	38,203,000	0.20%	N
McAllen Medical Center Hospital	37,529,000	0.40%	N
Coca Cola Bottling Company	36,077,000	0.19%	N
Simon Properties	30,416,000	0.33%	N
South Texas College	20,808,000	0.24%	N
Lineage Logistics	19,297,000	0.19%	N
Memorial Apartments	18,176,000	0.39%	N

Top Ten Wastewater System Customers Comments:

Current average Residential Usage and Rate Information

Service	Date of Last Rate Increase	Avg. Monthly Usage (gallons)	Avg. Monthly Bill (\$)	Avg. Monthly Increase Per Customer (\$)	Projected Monthly Increase Necessary (\$)	Anticipated Date of Projected Rate Increase (Date)
Wastewater	10-01-2017	7,000	\$21.95	\$0.5	\$0	

Number of Customers in Past 5 Years

Customers in Past 5 Years

2018: 46,992

2017: 46,780

2016: 46,195

2015: 45,362

2014: 44,708

Debt

Disclose all issues that may affect the project or the applicant's ability to issue and/or repay debt (such as anticipated lawsuits, judgments, bankruptcies, major customer closings, etc.): None

Has the applicant ever defaulted on any debt?: N

Taxing Authority

Does the applicant have taxing authority?: Y

Tax Assessed Valuations

Fiscal Year Ending	Net Taxable Assessed Value (\$)	Tax Rate (\$)	General Fund (\$)	Interest & Sinking Fund (\$)	Tax Levy (\$)	Percentage Current Collections (%)	Percentage Total Collections (%)
2018	\$8,529,744,630	\$0.48	\$0.44	\$0.04	\$40,097,345	91.71%	91.71%
2017	\$8,417,634,218	\$0.48	\$0.43	\$0.05	\$38,068,201	96.69%	96.69%
2016	\$7,853,046,891	\$0.48	\$0.44	\$0.04	\$37,404,091	96.96%	98.30%
2015	\$7,533,469,430	\$0.48	\$0.45	\$0.04	\$35,881,915	96.93%	98.89%
2014	\$7,342,031,955	\$0.43	\$0.43	\$0	\$33,760,812	96.79%	99.07%

Tax Assessed Values Comments: Year 2018 represents collections through the month of February

Schedule 8

City of McAllen, Texas
 Direct and Overlapping Property Tax Rates
 Last Ten Fiscal Years
 (rate per \$100 of assessed value)

Fiscal Year Ended September 30	Tax Roll Year	City Direct Rates			Overlapping Rates							
		Basic Rate	General Obligation		School Districts				Hidalgo County Drainage		Hidalgo County	
			Debt Service	Total Direct	McAllen	Sharvland	P.S.J.A	So. Tx College	Hidalgo	Edinburg		District No.1
2008	2007	\$ 0.41	\$ 0.01	\$ 0.42	\$ 1.48	\$ 1.55	\$ 1.52	\$ 0.15	\$ 1.54	\$ 1.45	\$ 0.07	\$ 0.59
2009	2008	0.41	0.01	0.42	1.15	1.19	1.21	0.15	1.32	1.12	0.07	0.59
2010	2009	0.41	0.01	0.42	1.17	1.19	1.27	0.15	1.35	1.19	0.07	0.59
2011	2010	0.41	0.01	0.42	1.17	1.19	1.27	0.15	1.35	1.19	0.07	0.59
2012	2011	0.43	-	0.43	1.17	1.20	1.36	0.15	1.44	1.24	0.07	0.59
2013	2012	0.43	-	0.43	1.17	1.29	1.36	0.15	1.56	1.24	0.08	0.59
2014	2013	0.43	-	0.43	1.17	1.29	1.36	0.15	1.56	1.24	0.07	0.59
2015	2014	0.43	0.04	0.48	1.17	1.34	1.36	0.19	1.53	1.24	0.10	0.59
2016	2015	0.44	0.04	0.48	1.16	1.34	1.40	0.19	1.53	1.24	0.10	0.59
2017	2016	0.43	0.05	0.48	1.16	1.38	1.39	0.19	1.47	1.24	0.10	0.58

Schedule 7

City of McAllen, Texas
Assessed Value and Actual Value of Taxable Property (1)
Last Ten Fiscal Years

Fiscal Year Ended September 30	Tax Roll Year	Residential Property	Commercial Property	Industrial Property	Minerals	Other	Less: Tax-Exempt Property	Total Net Taxable Assessed Value	Total Direct Tax Rate
2013	2012	4,327,680,248	3,343,176,312	137,187,071	68,824,902	1,013,294,611	1,326,819,524	7,563,343,620	0.43
2014	2013	4,475,282,922	3,503,723,046	132,720,411	71,783,017	1,011,927,424	1,360,010,810	7,835,426,010	0.43
2015	2014	4,474,949,998	3,533,253,705	124,370,144	73,248,263	1,030,966,285	1,347,181,652	7,889,606,743	0.48
2016	2015	4,884,004,235	3,738,806,189	129,302,716	75,747,969	1,027,473,342	1,419,789,823	8,435,544,628	0.48
2017	2016	5,143,975,739	4,118,594,649	141,279,203	70,842,520	1,118,293,988	1,481,312,452	9,111,673,647	0.48
2018	2017					In process of collection			

(1) The assessed value and actual value of properties is the same amount. The appraisal district appraises all property at market value. A column for the actual value is not reflected.

Source: City of McAllen Tax Office & Hidalgo County Appraisal District Tax Roll

Schedule 7

City of McAllen, Texas
Assessed Value and Actual Value of Taxable Property (1)
Last Ten Fiscal Years

Fiscal Year Ended September 30	Tax Roll Year	Residential Property	Commercial Property	Industrial Property	Minerals	Other	Less: Tax-Exempt Property	Total Net Taxable Assessed Value	Total Direct Tax Rate
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2015	2014	4,474,949,998	3,533,253,705	124,370,144	73,248,263	1,030,966,285	1,347,181,652	7,889,606,743	0.48
2016	2015	4,884,004,235	3,738,806,189	129,302,716	75,747,969	1,027,473,342	1,419,789,823	8,435,544,628	0.48
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City of McAllen, Texas
Assessed Value and Actual Value of Taxable Property (1)
Last Ten Fiscal Years

Fiscal Year Ended September 30	Tax Roll Year	Residential Property	Commercial Property	Industrial Property	Minerals	Other	Less: Tax-Exempt Property	Total Net Taxable Assessed Value	Total Direct Tax Rate
2013	2012	4,327,680,248	3,343,176,312	137,187,071	68,824,902	1,013,294,611	1,326,819,524	7,563,343,620	0.43
2014	2013	4,475,282,922	3,503,723,046	132,720,411	71,783,017	1,011,927,424	1,360,010,810	7,835,426,010	0.43
2015	2014	4,474,949,998	3,533,253,705	124,370,144	73,248,263	1,030,966,285	1,347,181,652	7,889,606,743	0.48
2016	2015	4,884,004,235	3,738,806,189	129,302,716	75,747,969	1,027,473,342	1,419,789,823	8,435,544,628	0.48
2017	2016	5,143,975,739	4,118,594,649	141,279,203	70,842,520	1,118,293,988	1,481,312,452	9,111,673,647	0.48
2018	2017					In process of collection			

(1) The assessed value and actual value of properties is the same amount. The appraisal district appraises all property at market value. A column for the actual value is not reflected.

Source: City of McAllen Tax Office & Hidalgo County Appraisal District Tax Roll

Schedule 7

City of McAllen, Texas
Assessed Value and Actual Value of Taxable Property (1)
Last Ten Fiscal Years

Fiscal Year Ended September 30	Tax Roll Year	Residential Property	Commercial Property	Industrial Property	Minerals	Other	Less: Tax-Exempt Property	Total Net Taxable Assessed Value	Total Direct Tax Rate
2013	2012	4,327,680,248	3,343,176,312	137,187,071	68,824,902	1,013,294,611	1,326,819,524	7,563,343,620	0.43
2014	2013	4,475,282,922	3,503,723,046	132,720,411	71,783,017	1,011,927,424	1,360,010,810	7,835,426,010	0.43
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2018	2017					In process of collection			

(1) The assessed value and actual value of properties is the same amount. The appraisal district appraises all property at market value. A column for the actual value is not reflected.

Source: City of McAllen Tax Office & Hidalgo County Appraisal District Tax Roll

Schedule 7

City of McAllen, Texas
Assessed Value and Actual Value of Taxable Property (1)
Last Ten Fiscal Years

Fiscal Year Ended September 30	Tax Roll Year	Residential Property	Commercial Property	Industrial Property	Minerals	Other	Less: Tax-Exempt Property	Total Net Taxable Assessed Value	Total Direct Tax Rate
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2014	2013	4,475,282,922	3,503,723,046	132,720,411	71,783,017	1,011,927,424	1,360,010,810	7,835,426,010	0.43
2015	2014	4,474,949,998	3,533,253,705	124,370,144	73,248,263	1,030,966,285	1,347,181,652	7,889,606,743	0.48
2016	2015	4,884,004,235	3,738,806,189	129,302,716	75,747,969	1,027,473,342	1,419,789,823	8,435,544,628	0.48
2017	2016	5,143,975,739	4,118,594,649	141,279,203	70,842,520	1,118,293,988	1,481,312,452	9,111,673,647	0.48
2018	2017					In process of collection			

(1) The assessed value and actual value of properties is the same amount. The appraisal district appraises all property at market value. A column for the actual value is not reflected.

Source: City of McAllen Tax Office & Hidalgo County Appraisal District Tax Roll

Top Ten Taxpayers

Taxpayer Name	Assessed Value	Percent of Total	Bankruptcy (Y/N)
Simon Property Group	\$154,055,359	1.69%	N
Rio Grande Regional Hospital	\$54,763,885	0.60%	N
AEP Texas Central	\$49,030,510	0.54%	N
United Health Services	\$47,961,236	0.53%	N
Palms Crossing LP	\$42,660,947	0.47%	N
GE Engine Services	\$35,726,826	0.39%	N
HE Butt Grocery Co	\$26,154,204	0.29%	N
Weingarten Realty	\$23,815,015	0.26%	N
Mcallen Foreign Trade Zone	\$19,184,577	0.21%	N
Weingarten Las Tiendas	\$18,446,752	0.20%	N

Top Ten Taxpayer Comments:

Tax Rate and Sales Tax

Provide the maximum tax rate permitted by law per \$100 of property value.: \$2.5

Does the applicant collect sales tax?: Y

2018: \$30,375,366

2017: \$58,429,794

2016: \$60,449,523

2015: \$62,939,971

2014: \$61,331,003

Sales Tax History Comments: 2018 includes collections thru March 2018

Is the proposed loan tax-exempt?: Y

CITY OF McALLEN, TEXAS
WATER AND SEWER FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Fiscal years 2010-2017

	2010	2011	2012	2013	2014	2015	2016	2017
Water Fund:								
Operating revenues								
Charges for services	\$ 13,104,781	\$ 16,136,628	\$ 15,686,958	\$ 15,778,543	\$ 15,327,198	\$ 15,244,137	\$ 18,003,011	\$ 19,054,312
Other	823,267	833,721	737,701	807,234	821,858	875,307	1,015,418	812,799
Total operating revenues	13,928,048	16,970,349	16,424,659	16,585,777	16,149,056	16,119,444	19,018,429	19,867,111
Percentage Increase/(Decrease)	-14.75%	21.84%	-3.22%	0.98%	-2.63%	-0.18%	17.98%	4.46%
Operating expenses								
Salaries, wages and employee benefits	5,566,744	5,758,891	5,570,443	5,688,257	5,896,419	5,733,627	6,971,883	7,038,706
Supplies	2,797,023	3,240,850	3,337,922	3,568,307	3,025,504	3,046,524	1,343,359	1,322,112
Contractual and other services	2,414,397	2,782,652	2,371,683	2,509,848	2,627,653	2,567,410	5,726,515	5,213,696
Repairs and maintenance	707,010	871,670	801,879	847,388	765,817	626,845	617,489	633,334
Depreciation and amortization	3,220,210	3,333,136	3,515,055	3,866,222	4,182,203	4,262,777	4,706,122	4,645,422
Other	-	-	-	-	-	-	-	-
Total operating expenses	14,705,384	15,987,199	15,596,982	16,480,022	16,497,596	16,237,183	19,365,368	18,853,270
Percentage Increase/(Decrease)	-7.13%	8.72%	-2.44%	5.66%	0.11%	-1.58%	19.27%	-2.64%
Operating income (loss)	(777,336)	983,150	827,677	105,755	(348,540)	(117,739)	(346,940)	1,013,841
Non operating revenues (expenses)								
Investment earnings	383,869	219,322	118,230	88,301	95,266	103,997	124,207	197,260
Net increase (decrease) in fair value of investments	(142,508)	(26,852)	29,778	(53,384)	25,798	18,760	(4,719)	(83,873)
Interest expense	(1,075,460)	(1,082,560)	(1,345,463)	(1,284,439)	(1,211,163)	(1,017,374)	(953,584)	(772,405)
Capitalized interest	-	-	-	-	-	-	-	-
Bond related charges	(2,726)	(28,155)	(28,155)	(28,155)	(26,478)	(127,641)	(199,461)	113,412
Gain (loss) on sale of capital assets	2,278	8,691	-	11,340	(3,915)	23,215	17,935	13,180
Other	-	-	-	2,484	3,029	598,727	24,782	8,846
Net non-operating revenues (expenses)	(834,547)	(909,554)	(1,225,610)	(1,263,853)	(1,117,463)	(400,316)	(990,840)	(523,580)
Income (loss) before contributions and transfers	(1,611,883)	73,596	(397,933)	(1,158,098)	(1,466,003)	(518,055)	(1,337,780)	490,261
Capital contributions	32,210	44,166	16,600,195 ***	168,326	90,369	47,806	1,484,976	1,229,691
Transfers in	-	27,341	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	(183,961)	(42,839)
Change in net assets	(1,579,673)	145,103	16,202,262	(989,772)	(1,375,634)	(470,249)	(36,765)	1,677,113
Restatement of water rights **	1,497,330							
Total net assets-beginning	67,268,306	\$ 67,185,963	\$ 67,331,066	\$ 83,533,328	\$ 82,543,556	\$ 80,797,943	\$ 80,327,693	\$ 80,290,928
Restatement of net position at beginning of year (rounding)					\$ (369,979)	\$ -	\$ -	\$ 3
Total assets--ending	\$ 67,185,963	\$ 67,331,066	\$ 83,533,328	\$ 82,543,556	\$ 80,797,943	\$ 80,327,693	\$ 80,290,928	\$ 81,968,044
Number of Accounts:								
Residential	35,829	36,432	36,387	37,035	37,558	38,098	38,790	39,295
Commercial	6,053	6,192	6,754	6,865	6,983	7,101	7,242	7,329
Industrial	170	168	165	168	167	163	163	156
Total Number of Accounts	42,052	42,792	43,306	44,068	44,708	45,362	46,195	46,780

** In compliance with GASB Statement No. 51 "Accounting and Financial Reporting for Intangible Assets", the water fund, a proprietary fund, restated its fund balance in the amount of \$1,497,330 in fiscal year 2010.

This amount represents accumulated amortization expense previously considered for water rights. The current book value, as restated, for water rights is reflected as \$9,223,500. Water rights in the amount of \$2,200,000, which have a determined life of twenty years, will continue to be amortized. The remaining amount of \$7,023,500 are not amortized, because of its nature.

*** This amount includes the cost of the new Boeys Reservoir paid for by the City and contributed to McAllen Public Utility.

CITY OF McALLEN, TEXAS
WATER AND SEWER FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Fiscal years 2010-2017

	2010	2011	2012	2013	2014	2015	2016	2017
Sewer Fund:								
Operating revenues								
Charges for services	\$ 13,111,384	\$ 14,437,999	\$ 14,076,842	\$ 14,524,199	\$ 14,555,861	\$ 14,984,408	\$ 16,653,720	\$ 17,033,802
Rentals	-	-	-	-	-	-	-	-
Other	258,553	361,268	491,707	316,460	420,185	393,785	494,026	670,794
Total operating revenues	13,369,937	14,799,267	14,568,549	14,840,659	14,976,046	15,378,193	17,147,746	17,704,596
Percentage Increase/(Decrease)	-7.73%	10.69%	-1.56%	1.87%	0.91%	2.69%	11.51%	3.25%
Operating expenses								
Salaries, wages and employee benefits	3,358,770	3,479,788	3,513,661	3,579,390	3,844,685	3,552,473	4,358,427	4,279,807
Supplies	700,195	629,205	585,035	627,856	687,718	679,070	694,200	685,315
Contractual and other services	2,903,543	2,835,752	2,815,617	3,358,170	3,101,264	3,031,302	3,528,428	3,078,302
Repairs and maintenance	440,804	419,368	478,351	527,219	504,832	425,117	433,074	530,654
Depreciation and amortization	3,815,294	3,820,518	3,913,143	4,311,760	5,754,548	5,658,492	6,151,898	5,975,189
Other	-	-	-	-	-	-	-	-
Total operating expenses	11,218,606	11,184,631	11,305,807	12,404,395	13,893,047	13,346,454	15,166,027	14,549,267
Percentage Increase/(Decrease)	6.11%	-0.30%	1.08%	9.72%	12.00%	-3.93%	13.63%	-4.07%
Operating income (loss)	2,151,331	3,614,636	3,262,742	2,436,264	1,082,999	2,031,739	1,981,719	3,155,329
Non operating revenues (expenses)								
Investment earnings	333,371	217,284	122,978	99,806	142,014	187,886	234,757	342,721
Net increase (decrease) in fair value of investments	(82,970)	(12,140)	32,706	(45,190)	10,684	24,763	(10,512)	(63,788)
Interest expense	(1,934,911)	(1,809,163)	(1,432,594)	(1,374,154)	(1,402,322)	(1,422,902)	(1,081,472)	(1,436,816)
Capitalized interest	-	-	-	-	-	-	-	1,020,364
Bond related charges	123,225	27,805	27,684	27,685	170,693	(144,275)	(124,022)	491,002
Gain (loss) on sale of capital assets	4,859	-	-	3,960	185	-	2,703	32,103
Other	-	31,518	-	-	-	-	-	-
Net non-operating revenues (expenses)	(1,556,426)	(1,544,696)	(1,249,226)	(1,287,893)	(1,078,746)	(1,354,528)	(978,546)	385,586
Income (loss) before contributions and transfers	594,905	2,069,940	2,013,516	1,148,371	4,253	677,211	1,003,173	3,540,915
Capital contributions	39,268	216,755	562,695	321,388	1,194,153	881,504	2,318,479	2,117,572
Transfers in	-	18,633	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	(112,603)	(24,390)
Change in net assets	634,173	2,305,328	2,576,211	1,469,759	1,198,406	1,558,715	3,209,049	5,634,097
Total net assets--beginning	64,190,292	64,824,465	67,129,793	69,706,004	71,175,763	71,930,798	73,489,512	76,698,563
Restatement of net position at beginning of year					\$ (443,371)	\$ -	\$ 2	\$ -
Total assets--ending	\$ 64,824,465	\$ 67,129,793	\$ 69,706,004	\$ 71,175,763	\$ 71,930,798	\$ 73,489,512	\$ 76,698,563	\$ 82,332,660
Number of Accounts:								
Residential	32,469	33,029	33,296	33,939	34,415	34,945	35,387	36,100
Commercial	4,915	5,019	5,133	5,170	5,249	5,313	5,392	5,431
Industrial	137	136	134	138	138	132	133	126
Total Number of Accounts	37,521	38,184	38,563	39,247	39,802	40,390	40,912	41,657



CITY OF
McALLEN, TEXAS

Comprehensive Annual Financial Report

For the Fiscal Year Ended September 30, 2017

**Prepared by:
Department of Finance**

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CITY OF McALLEN, TEXAS
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JAMES E. DARLING, Mayor
AIDA RAMIREZ, Mayor Pro-Tem and Commissioner District 4
RICHARD CORTEZ, Commissioner District 1
JOAQUIN J. ZAMORA, Commissioner District 2
JULIAN OMAR QUINTANILLA, Commissioner District 3
JOHN INGRAM, Commissioner District 5
VERONICA WHITACRE, Commissioner District 6

ROEL RODRIGUEZ, P.E., City Manager

To the Honorable Mayor, Members of the City Commission, Members of the Public Utility Board of Trustees and Citizens of the City of McAllen:

State and local law requires that the City of McAllen publish annually a complete set of audited financial statements. This report, the Comprehensive Annual Financial Report of the City of McAllen, is published to meet that requirement for the fiscal year ended September 30, 2017.

Management assumes full responsibility for the completeness and reliability of the information presented in this report, based upon a comprehensive internal control framework that it has established for this purpose. Since the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The firm of Grant Thornton, LLP, Certified Public Accountants, was selected by the City to perform the audit and have issued an unmodified (“clean”) opinion on the City of McAllen’s financial statements for the year ended September 30, 2017. In addition to meeting the requirements set forth in state statutes, the audit was also designed to meet the requirements of the Single Audit Act and Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Generally accepted auditing standards and the standards set forth in the Government Accountability Office’s *Government Auditing Standards* were used by the auditors in conducting the engagement. The auditors’ report on the basic financial statements and required supplementary information as well as the individual fund statements and schedules are included in the financial section of this report. The auditors’ reports on internal controls and compliance with applicable laws and regulations can be found in the single audit section of this report.

Management’s Discussion and Analysis (MD&A) immediately follows the independent auditors’ report and provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

The City of McAllen is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and the Uniform Guidance and the *State of Texas Single Audit Circular*. Information related to this single audit, including a schedule of expenditures of federal and state awards, the report of independent public accountants on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs are included in the single audit section of this report.

PROFILE OF THE GOVERNMENT

The City of McAllen, incorporated in 1911 and the largest city in Hidalgo County, is located at the intersection of U. S. Highway 83 and State Highway 336. It is approximately 230 miles south of San Antonio, 150 miles north of Monterrey, Nuevo Leon, Mexico, a city with a population of over 5.9 million including the surrounding suburbs, and just 7 miles north of Reynosa, Tamps. Mexico. Within a 150-mile radius of McAllen, its trade area represents approximately 10 million people. According to the 2010 census, McAllen’s estimated population was 129,877, increasing 23,463 or 22% over that of the 2000 census, 106,414. Using the latest census number as a new base, it is estimated that as of September 30, 2016 and 2017 the population has grown to 143,023 and 146,337 respectively. The City is empowered to levy a property tax on both real and business personal property located within its boundaries. The City also has the power by state statute to extend its corporate limits by annexation, which it has done from time to time, as deemed appropriate by the City Commission.

The City has operated under the council-manager form of government since 1911. Policymaking and legislative authority is vested in the City Commission, which currently consists of a mayor and a six-member commission. The City Commission is responsible, among other things, for passing ordinances, adopting the budget, appointing committees and hiring the City Manager, City Secretary, Police Chief, Fire Chief, the City Attorney and the Municipal Judges. The City Manager is responsible for carrying out the policies and ordinances of the City Commission, for overseeing the day-to-day operations of the City, and for appointing the heads of the City's departments. The City Commission is elected on a non-partisan basis. In May 2000 the voters decided in favor of single member district representation. Under this system, City Commission members are elected to four-year staggered terms with three elected every two years. The Mayor was and will continue to be elected at large to four-year terms.

The financial reporting entity (the government) includes all the funds of the primary government (i.e., the City of McAllen as legally defined). The City of McAllen provides a full range of services including public safety (primarily police and fire protection), highways and streets, health and welfare, recreational and cultural activities, water, sewer, sanitation and recycling services, a municipal golf course, a convention center, an international airport, intermodal transit terminal, a transit system and two international toll bridge operations.

The City acts in the capacity of fiduciary for the Firemen's Relief and Retirement Fund, Developer's Fund, and Communications Group; therefore, these activities are included in the reporting entity. However, the McAllen Independent School District (MISD), McAllen Chamber of Commerce (MCC), McAllen Economic Development Corporation (MEDC), McAllen Affordable Homes of South Texas, Inc., and the Texas Municipal Retirement System (TMRS) do not meet the established criteria for inclusion in the reporting entity, and accordingly are excluded from this report.

The City Commission is required to adopt a final budget by no later than the close of the fiscal year. This annual budget serves as the foundation for the City of McAllen financial planning and control. The budget is prepared by fund, function (e.g., public safety), and department (e.g., police). The legal level of control is at the department level.

LOCAL ECONOMY

Over the last 15 to 20 years, the City's economy has undergone a significant transformation, characterized by a decreasing reliance on agriculture. As a consequence of this transformation, the City has experienced substantial economic growth that has spurred an increase in employment and a decline in its unemployment rate despite brisk growth in the labor force—until it began to experience a slowdown during the last year period. Although the City's economy did not decline to the extent of that experienced by other cities, in both the nation and to a lesser extent the state, it did present some very real challenges during the budget process last year.

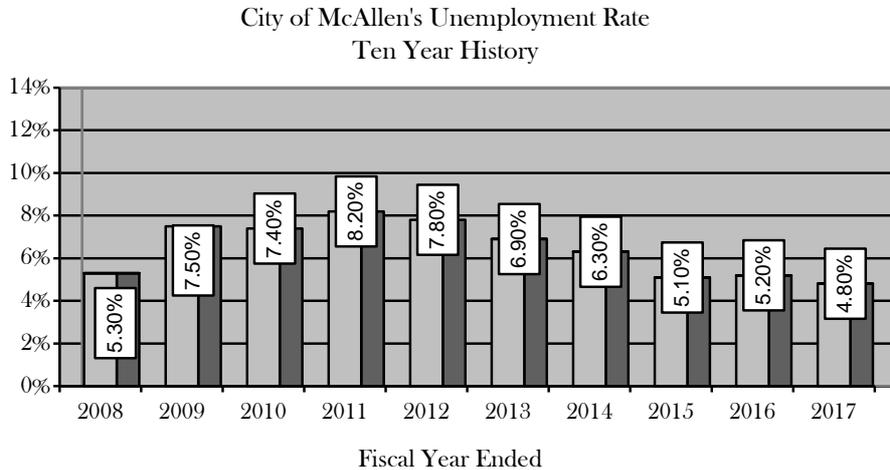
According to the Texas Workforce Commission, over the last 10 years the McAllen-Edinburg-Mission MSA employment has grown from 270,092 in 2007 to 335,220 in 2017—a 24.00% increase. At this level, the unemployment rate is 7.9%. Some of the more significant employment numbers by industry, include government; trade, transportation and utilities; education and health services; and leisure and hospitality.

The City's location has positioned it to take advantage of The Maquiladora "Twin Plant" Program, under which U.S. firms locate manufacturing facilities in Mexico accompanied by warehousing facilities in McAllen's foreign trade zone in order to cut labor costs and remain competitive, has been responsible for a large part of the job growth. Since 1988 through 2017, the latest year available, which on a calendar year basis, the McAllen Economic Development Corporation has been responsible for bringing 322 new companies, which including expansions, has created 23,988 jobs in McAllen. Its efforts have also resulted in 366 new companies, which including expansions, has created 88,962 new jobs in Reynosa, Mexico. Overall, 196,787 jobs have been created.

The impact of the North American Free Trade Agreement (NAFTA), as it continues to develop, has also played a major role in increased trade with Mexico for the City as well as the State of Texas. During 2016, Texas exported \$91.7 billion to Mexico, which represented over 39.7% of Texas' total exports—making Mexico its Number One Trading Partner. As NAFTA continues to mature, the City of McAllen's international toll bridge, connecting Hidalgo, Texas with Reynosa, will continue to facilitate trade between Mexico and the U. S.; and, more particularly the City with its proximity to Mexico and strong social, economic and cultural ties with the people of Mexico. The Anzalduas International Crossing also provides another bridge to connect the peoples of the U.S. and Mexico and facilitate economic development opportunities between the two countries.

The City's unemployment rate has steadily declined since 2011, decreasing down to 7.8% in 2012 and declining further

in 2013 and 2014 to 6.9% and 6.3% respectively. This past year unemployment stood at 5.2% prior to inching down to the present level of 4.8%.



Source: Texas Workforce Commission

Another useful source of information for assessing the City’s economy is the *McAllen Area Economic Pulse* report, published by the McAllen Chamber of Commerce. This year’s report indicates a marginal improvement over last year. According to the latest report available, September 2017, the economic index for the McAllen Area increased from 184.6 in September 2016 to 189.2 in September 2017. This index reflects, for the McAllen area economy, an increase in retail sales of .8%, a decrease in lodging tax receipts -5.4%, airline boarding’s -5.9%, and home sales price 8.0%. Vehicle purchases decreased -7.4%, as well as bridge crossings by -3.8%.

Some of the City’s more significant statistics, reflective of its economy, have been somewhat mixed. Property values have increased. After two years of gradual increase in sales tax, this past year the City experienced a gradual decrease. Sales tax increased by 5% in 2013, 1% in 2014, 2 % in 2015, but decreased 3.5% in 2016 and 2.8% in 2017. There was a 5.9% increase in the Mexican Peso exchange in relation to the US Dollar from 18.25 to 19.34, which possibly had an impact in the sales tax decrease.

LONG-TERM FINANCIAL PLANNING

As of September 30, 2017 the City’s General Fund unassigned fund balance amounted to \$42.9M, which represents 150 days of operating expenses appropriated in next year’s budget. This amount exceeds the City’s 140 day policy.

RELEVANT FINANCIAL POLICIES

During this fiscal year, the City adopted no new financial policies, which would have a significant impact on the current year’s financial statements.

MAJOR INITIATIVES For the Year 2016-17

The City’s staff, following specific directives of the City Commission and the City Manager, has been involved in a variety of projects throughout the year. These projects reflect the City’s commitment of ensuring that its citizens are able to live and work in a highly desirable community and include the following:

The goals adopted by the Mayor and City Commission for FY 2016-17, as well as the status, follows:

Continue to implement City Business Plan

- Continue Incentive programs for "Destination" Retail Projects including La Plaza Mall
Management’s Response: Simon at La Plaza Mall commenced with the renovation of the North Side of the Mall with the construction of an 80,000 square foot two level building with room for specialty stores and

restaurants. It is 90% completed with the scheduled Grand Opening in November-December. Construction of a two story Parking Garage on East side completed.

- Facilitate redevelopment of old Civic Center site
Management's Response: Old Civic Center site cleared and razed buildings completed. Working with Simon and Provident to develop a mixed-use attraction.
- Continue retail recruitment efforts nationwide
Management's Response: A nationwide business completed and operating in City. Additional businesses will open once renovations of La Plaza Mall completed.
- Continue to bring new manufacturing to the region
Management's Response: Four new companies creating 145 new jobs opened this year.
- Design and erect new monument signs at City entrances.
Management's Response: Entry monument completed at Bicentennial and Uvalde. Propose adding 23" & Military Highway and Taylor Road and Frontage.

Complete City assets currently in design

- Construct new Two Level Parking Structure at the McAllen Public Safety Building
Management's Response: Parking garage is approximately 50% complete with anticipated Grand Opening in February 2018.
- Repurpose existing previous law enforcement building
Management's Response: Repurposing and modernizing the building for usage by various law enforcement agencies mainly City of McAllen, DPS, and Hidalgo Count completed.
- Construction new Youth Baseball Complex
Management's Response: Commission hired Austin-based firm for construction in April 2017. Project is 34% completed.
- La Lomita Sewer Project
Management's Response: Project completed bringing sewer service to over 40 residents with no cost overruns.
- Refurbish Golf Course building
Management's Response: Reconstruction of A/C, Heating and Ventilation completed along with some landscaping for aesthetic purposes.
- Construction of a South Waste Water Treatment Plant (SWWTP) Project
Management's Response: Construction commenced and funding in place for the construction. Presently in design phase.

Improve City Traffic flow and Storm Drainage

- Traffic management Improvements - Cabinets Replacement
Management's Response: Traffic cabinets replaced at various locations completed.
- Regional storm water improvements – El Rancho Santa Cruz Subdivision; Kennedy Avenue; Pecan Boulevard at 27th Street; Westway Heights; and Redbud Avenue at K Center.
Management's Response: Redbud at K Center completed. Other projects scheduled for next fiscal year.

- Taylor Road Phase III Improvements
Management's Response: Inter-local agreement between the City of McAllen, Mission, and County of Hidalgo. Widening of Taylor Road from 2 lanes to 5 lanes from Expressway 83 to Mile 2 North.

Leisure, Cultural and Entertainment

- Complete Performing Arts Center
Management's Response: Completed. Grand opening held November 19, 2016. Events scheduled.
- McAllen Annual City Parade.
Management's Response: City annual parade held December 3, 2016 with dignitaries present and will start the tradition with private sector sponsors.
- McAllen City Marathon.
Management's Response: City annual McAllen Marathon Scott Crane Memorial Run held January 15, 2016; next one scheduled for January 21, 2018.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the year ended September 30, 2016. This was the thirtieth consecutive year and the thirty first overall that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfies both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

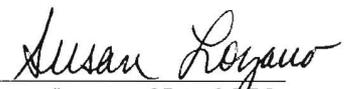
In addition, the City also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget dated October 1, 2016. The budget for October 1, 2017 has been submitted for review and notification of an award is awaited. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document is judged on proficiency in several categories including policy documentation, financial planning and organization.

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire Finance Department staff. Due credit also should be given to the Mayor, City Commission, McAllen Public Utilities Board of Trustees, the Bridge Board, Development Corp Board and management for their interest and support in planning and conducting the operations of the City in a responsible and progressive manner.

Respectfully submitted,



Roel "Roy" Rodriguez, P.E.
City Manager



Susan Lozano, CPA, CGFO
Finance Director

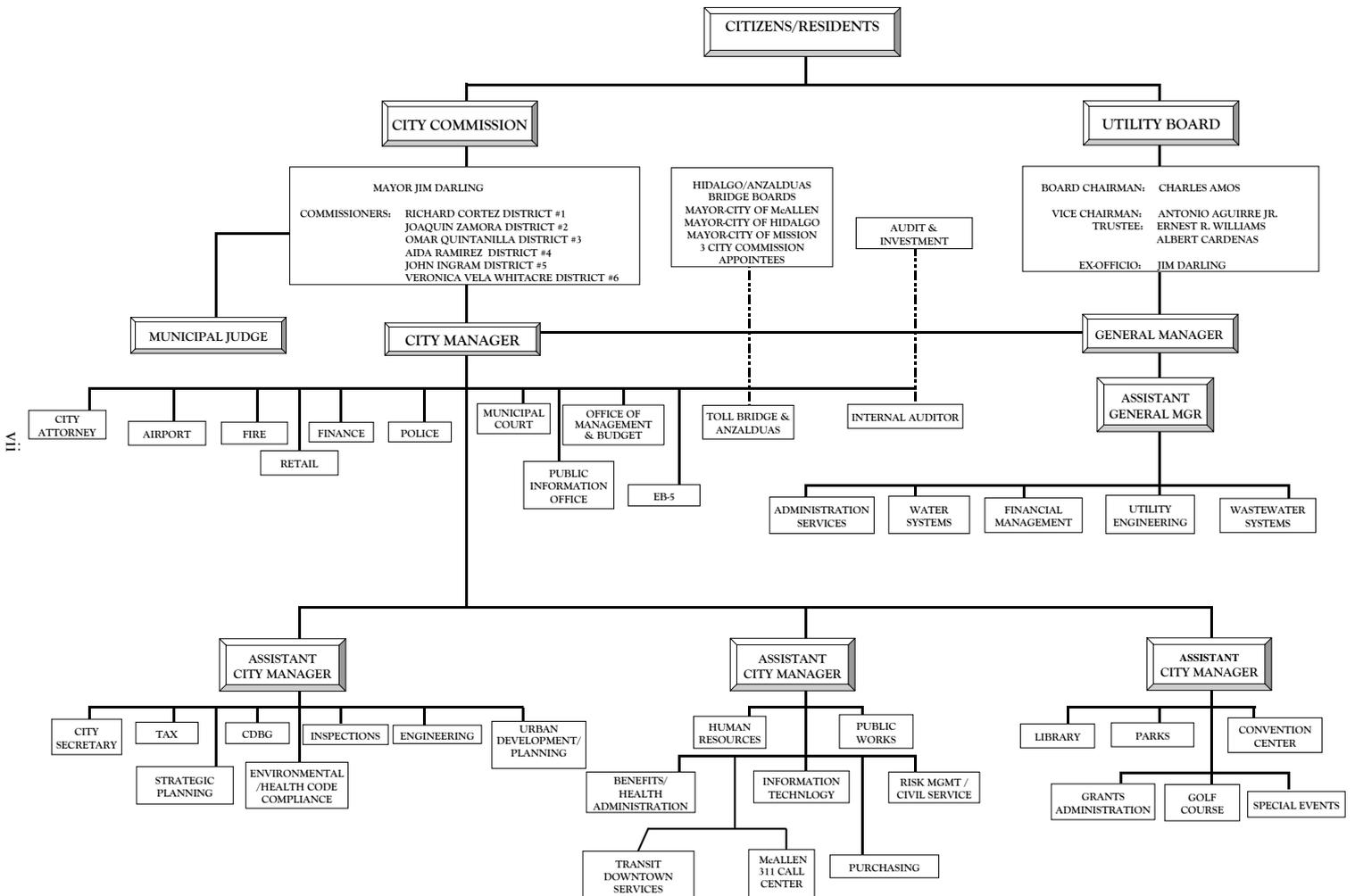
CITY OF McALLEN, TEXAS

LIST OF PRINCIPAL OFFICIALS

SEPTEMBER 30, 2017

Mayor.....	James E. Darling
Mayor Pro-Tem - Commissioner District 4.....	Aida Ramirez
Commissioner District 1.....	Richard F. Cortez
Commissioner District 2.....	Joaquin “J.J.” Zamora
Commissioner District 3.....	Omar Quintanilla
Commissioner District 5.....	John J. Ingram
Commissioner District 6.....	Veronica Whitacre
Public Utility Board Chairman.....	Charles Amos
Public Utility Board Vice-Chairman Place B.....	Antonio “Tony” Aguirre, Jr.
Trustee Place C.....	Albert Cardenas
Trustee Place D.....	Ernest R. Williams
Ex-Officio Member.....	James E. Darling
City Manager.....	Roel Rodriguez, P.E.
MPU General Manager.....	Marco A. Vega, P.E.
Assistant City Manager.....	Jeff Johnston
Assistant City Manager.....	Joe Vera
Assistant City Manager.....	Michelle Leftwich
Attorney.....	Kevin D. Pagan
Finance Director.....	Susan A. Lozano
Administrator of Urban Development.....	Julianne Rankin
Aviation Director.....	Elizabeth Suarez
Bridge Superintendent.....	Rigoberto Villarreal
City Secretary.....	Perla Lara
Fire Chief.....	Rafael Balderas
Director Parks and Recreation.....	Miguel Hernandez Jr.
Human Resources Director.....	Christina Flores
Police Chief.....	Victor Rodriguez

CITY OF McALLEN, TEXAS





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of McAllen
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2016

Christopher P. Morill

Executive Director/CEO



Grant Thornton LLP
700 Milam Street, Suite 300
Houston, Texas 77002
T 832-476-3600
www.GrantThornton.com

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Report on the financial statements

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

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Firemen's Relief and Retirement Fund, a fiduciary fund of the City of McAllen, which represents 30.6%, 35.2%, and 16.1%, respectively, of the assets, net position/fund balance, and revenues/additions, of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Firemen's Relief and Retirement Fund, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of McAllen, Texas as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Development Corporation Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Texas Municipal Retirement System schedule of changes in net pension liability and related ratios, Texas Municipal Retirement System schedules of contributions, Firemen's Relief and Retirement Fund schedule of changes in net pension liability and related ratios, Firemen's Relief and Retirement Fund schedules of contributions and post-employment benefit plan schedule of funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund financial statements, individual budget schedules and the schedule of expenditures of federal and state awards, as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State of Texas Single Audit Circular, respectively, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other information

The introductory section and statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated March 20, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Grant Thornton LLP

Houston, Texas
March 19, 2018

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City of McAllen, Texas
Management's Discussion and Analysis (Unaudited)
September 30, 2017

This discussion and analysis is intended to provide an overview of the City's financial performance for the fiscal year ended September 30, 2017 and the related effect on the City's financial condition. Please read it in conjunction with the transmittal letter on pages i-v and the City's financial statements, which begin on page 19.

FINANCIAL HIGHLIGHTS

City's Change in Net Position – Governmental and Business-Type Activities

Total government-wide net position increased \$137K as a result of this year's operations. Governmental activities decreased \$55.9M with business-type activities contributing \$56.1M.

- **Governmental Activities – Revenues and Expenses Compared to Last Year –** Total revenues in the aggregate increased \$23M over last year. The decreases/increases were in the following categories: sales taxes decreased \$2.0M, which was offset by an increase in property tax, \$2.0M, and other miscellaneous revenues increased by \$1.5M, in addition to a parkland contribution of \$13.1M and a swap of land, \$9.8M. Expenses increased \$11M or 7.0% over last year, which is primarily due to depreciation expense, \$14M, offset by a decrease in OPEB expense, \$1M and fire pension expense, \$2M. The net increase in program function expenses were the result of a \$6M increase in general government, \$2.0M increase in health and welfare, \$6M increase in culture and recreation, which is offset with a \$1M decrease in public safety and a \$3M decrease in the highways and streets functions.
- **Business-Type Activities – Revenues and Expenses Compared to Last Year –** Total revenues reflected a decrease of \$12M from last year. Charges for services increased by \$3M, which can be attributed to an increase in Water and Sewer Fund residential and commercial sales, as well as an increase in the Sanitation Fund's recycling sales and brush collection charges. Grants and contributions decreased by \$4M, with the majority of the decrease noted in the Airport Capital Improvement Fund and Transit System Fund. Expenses decreased \$1M or 1% under last year with the more significant decreases coming from the Water Fund-\$1M, Sewer Fund-\$1M, and Anzalduas Bridge Fund-\$1M, which was offset by the increase of \$2M from the Performing Arts Center fund, which started operations this fiscal year. This fund is in charge of events formally handled by the Civic Center Fund, whose expenses totaled \$1M the prior year.

USING THE ANNUAL REPORT

The annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 19 and 20-21) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 22. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of McAllen, Texas
Management Discussion and Analysis (Unaudited)
September 30, 2017

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

One of the central concerns in assessing any City's finances could be summarized in the question, "Is the City as a whole better off or worse off as a result of the year's activities?" Our analysis addressing this question begins on page 8-9. The analysis includes a condensed summary of the government-wide financial statements—The Statement of Net Position and the Statement of Activities, which present information about the City in a way that facilitates answering this question. These statements are presented much like the private-sector companies—including *all* assets and liabilities using the *accrual basis of accounting*. All revenues and expenses for the current year are reported without regard to when cash is received or paid.

These government-wide financial statements report both net position and changes thereto. Net position is reported in the Statement of Net Position. The City's net position, which is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, is one indicator of the City's financial well-being or *financial position* at one point in time. Increases or decreases to net position over a period of time is an indication whether its financial well-being is improving or deteriorating. Of course, other non-financial considerations enter into the determination of the City's overall health, which would include such things as changes in the City's property tax base and the condition of its streets.

Changes to net position are reported in the Statement of Activities, which divides all City functions into two categories:

Governmental activities—Most of the City's basic services are reported in this category, which includes public safety (including police and fire), highways and streets, health and welfare, culture and recreation and general administration. These activities are primarily supported by sales and property taxes and franchise fees.

Business-type activities—Certain services that the City provides are paid for from fees that are charged to customers. Water, sewer, garbage collection, civic center, convention center, golf course, airport, transit terminal, transit services and the bridges are activities that are reported in this category.

Reporting the City's Most Significant Funds
Fund Financial Statements

Our analysis of the City's major funds commences on page 11. The fund financial statements are presented on pages 22 through 49. These statements present detailed information about the City's more significant funds as opposed to the City as a whole. Funds are established for various reasons—some are required by state law; others by bond covenants. Some funds are established by the City Commission to assist in managing money that is to be spent for particular purposes. For example, the Community Development Block Grant Fund was established to demonstrate that the money received from the U. S. Department of Housing and Urban Development was used for purposes established by the federal government. The City has two categories of funds, which can be used for public purpose—*governmental* and *proprietary*. Each category uses a different accounting approach.

Governmental funds—Most of the City's basic services are reported in governmental funds. These funds focus on the flow of money into and out of the funds and the balance left over at the end of the year that is available for future spending. Governmental funds use a method of accounting called modified accrual.

City of McAllen, Texas
Management Discussion and Analysis (Unaudited)
September 30, 2017

The purpose of this method is to measure cash and other *financial* assets that can readily be converted to cash. This approach provides a detailed short-term perspective of the City's general government operations and the basic services it provides. This view of the City's operations provides information that helps to determine the extent to which financial resources are available to spend in the near future to finance City programs. The relationship between these governmental fund financial statements and the governmental activities column shown in the government-wide financial statements is shown in the form of a reconciliation presented on the page following each governmental fund financial statement.

Proprietary funds—Services provided to either outside customers or to another unit of the City, where a fee is charged, are generally reported in proprietary funds. Proprietary funds are reported the same way that is used in the government-wide financial statements. Matter of fact, the City's enterprise funds (a component of proprietary funds) are substantially the same as the business-type activities column of the government-wide financial statements but provide more detail including cash flows. The other component of proprietary funds is internal service funds. These funds are used to report services that are provided for other City funds—such as the Fleet and Materials Management Fund, which reports maintenance activities for all City vehicles.

The City as Trustee

Reporting the City's Fiduciary Responsibilities

The City is the trustee, or fiduciary, for the Firemen's Pension Fund, Developers' Fund, Communications Group Fund and Payroll Fund. This activity is reported in separate Statements of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position on pages 50-51. These activities are not included with the City's other government-wide financial information since the City cannot use these assets to finance its programs or operations. The City's is responsible for ensuring that these funds are used for their intended purpose.

City of McAllen, Texas
Management's Discussion and Analysis (Unaudited)
September 30, 2017

THE CITY AS A WHOLE

The City's Condensed Net Position Information is presented in the table below.

Net Position Information
(in Millions)

	Governmental		Business-type		Total	
	Activities		Activities		Primary	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 155	\$ 165	\$ 125	\$ 136	\$ 280	\$ 301
Capital assets	303	326	498	434	801	760
Total assets	<u>458</u>	<u>491</u>	<u>623</u>	<u>570</u>	<u>1,081</u>	<u>1,061</u>
Deferred outflows of resources	<u>14.0</u>	<u>19.6</u>	<u>9.9</u>	<u>11.2</u>	<u>23.9</u>	<u>30.8</u>
Long-term debt outstanding	123.0	106.6	169.9	170.7	292.9	277.3
Other liabilities	<u>63.9</u>	<u>63.2</u>	<u>22</u>	<u>25</u>	<u>86</u>	<u>88</u>
Total liabilities	<u>186.9</u>	<u>169.8</u>	<u>191.7</u>	<u>195.7</u>	<u>378.6</u>	<u>365.5</u>
Deferred inflows of resources	<u>3.7</u>	<u>3.3</u>	<u>5.1</u>	<u>5.1</u>	<u>8.8</u>	<u>8.4</u>
Net position:						
Net investment in capital assets	221	278	333	269	554	547
Restricted	23	24	63	62	86	86
Unrestricted	<u>38</u>	<u>36</u>	<u>40</u>	<u>49</u>	<u>78</u>	<u>85</u>
Total net position	<u>\$ 282</u>	<u>\$ 338</u>	<u>\$ 436</u>	<u>\$ 380</u>	<u>\$ 718</u>	<u>\$ 718</u>

Net position of the City's governmental activities decreased by \$56M or 16.5% under last year; primarily as a result of transferring completed construction in progress assets totaling \$52M to the Performing Arts Center, an enterprise fund, which began operations in December 2016. In addition, deferred outflows of resources – pensions decreased \$5.6M when compared to prior fiscal year. Unrestricted net position is the portion of net position, which can be utilized to finance day-to-day operations, free of any constraints established by debt covenants, enabling legislation or other legal requirements.

The net position of the City's business-type activities increased \$56M or 14.7% more than last year's amount, which is due to transfer of \$52M in capital assets from governmental activities to the Performing Arts Center Fund, as well as a decrease in expenses in the Water, Sewer, and Anzalduas Bridge funds.

The table on the following page presents more detail on revenues and expenses.

City of McAllen, Texas
Management Discussion and Analysis (Unaudited)
September 30, 2017

Changes in Net Position Information (in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues:						
Charges for services	\$ 10	\$ 9	\$ 87	\$ 84	\$ 97	\$ 93
Grants and contributions	9	6	8	12	17	18
General revenues:					-	-
Property taxes	43	41	-	-	43	41
Sales tax	59	61	-	-	59	61
Other taxes	12	12	-	-	12	12
Gain on sale of capital assets	-	-	-	10	-	10
Other general revenues	26	7	1	2	27	9
Total revenues	<u>159</u>	<u>136</u>	<u>96</u>	<u>108</u>	<u>255</u>	<u>244</u>
Program expenses						
General government	44	38	-	-	44	38
Public safety	62	63	-	-	62	63
Highways and streets	21	24	-	-	21	24
Health and welfare	8	6	-	-	8	6
Culture and recreation	28	22	-	-	28	22
Interest on long term debt	3	2	-	-	3	2
Water	-	-	19	20	19	20
Sewer	-	-	15	16	15	16
Sanitation	-	-	18	18	18	18
Golf	-	-	1	1	1	1
Transit terminal	-	-	2	2	2	2
Bus	-	-	4	4	4	4
Performing arts center	-	-	2	-	2	-
Civic center	-	-	-	1	-	1
Convention center	-	-	6	6	6	6
Airport	-	-	9	9	9	9
Anzalduas international crossing	-	-	5	6	5	6
McAllen Int'l toll bridge	-	-	8	7	8	7
Total expenses	<u>166</u>	<u>155</u>	<u>89</u>	<u>90</u>	<u>255</u>	<u>245</u>
Excess (Loss) before transfers	(7)	(19)	7	18	-	(1)
Transfers	<u>(49)</u>	<u>16</u>	<u>49</u>	<u>(16)</u>	<u>-</u>	<u>-</u>
Change in net position	(56)	(3)	56	2	-	(1)
Beginning net position, October 1	<u>338</u>	<u>341</u>	<u>380</u>	<u>378</u>	<u>718</u>	<u>719</u>
Ending net position, September 30	<u>\$ 282</u>	<u>\$ 338</u>	<u>\$ 436</u>	<u>\$ 380</u>	<u>\$ 718</u>	<u>\$ 718</u>

Total revenues generated from both governmental and business-type activities this year amounted to \$255M, representing an increase of \$11M or 4.5% over last year due primarily to charges for services, property taxes, and the receipt of a capital asset contribution. Sales tax decreased \$2M or 3%. Expenses

City of McAllen, Texas
Management Discussion and Analysis (Unaudited)
September 30, 2017

came in at \$255M, or \$10M over last year, as FY 16-17 included an increase in pension expense, maintenance expenses, as well as depreciation expense, which resulted in a positive change to net position. The following analysis considers separately the operations of governmental and business-type activities.

Governmental Activities

Total revenues generated from governmental activities this year amounted to \$159M. Expenses came in at \$166M, leaving a \$7M decrease before transfers-out of \$49M, thus decreasing net position by \$56M.

The cost of all governmental activities this year was \$166M. However, as shown on the Statement of Activities on pages 20-21, the amount that our taxpayers ultimately financed for these activities through taxes and other general revenues was \$91.6M. The other \$74.4M to finance these programs was paid mainly by bond constructions proceeds and those who directly benefited from them and by other governments that subsidized certain programs with grants.

The table below presents the cost of each of the City’s five largest programs as well as each program’s net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City’s taxpayers by each of these functions. The decrease noted in Fire activity was attributed to a reduction in pension expense from the latest actuary report performed for the City, as well as grant revenue received for the Police Department Parking Garage.

Governmental Activities
(in Millions)

	Net Cost of Services	
	2017	2016
Police	\$ 27	\$ 31
Fire	22	23
Street maintenance	7	8
Parks	7	7
Drainage	4	2
Total	\$ 67	\$ 71

Business-type Activities

Total revenues generated from business-type activities this year amounted to \$96M. Expenses came in at \$89M leaving \$7M before transfers in of \$49M, which, resulted in a net increase to net position of \$56M. More details will be provided about governmental and business-type activities’ operations later in this discussion and analysis.

City of McAllen, Texas
Management Discussion and Analysis (Unaudited)
September 30, 2017

GOVERNMENTAL FUNDS – A Detailed Discussion
(General Fund, Special Revenue Funds, Debt Service Fund and Capital Project Funds)

As a result of this year’s operations, governmental funds (as reflected in the balance sheet on page 22-23) combined fund balance totaled \$105M or a decrease of \$17M from last year. Current revenues, including net transfers in, were not sufficient to cover current expenditures, thus, resulting in a decrease to fund balance by \$17M.

Revenues and Transfers-In and Other Financing Sources

The following table presents a summary of general fund, special revenue funds, debt service fund and capital projects funds revenues and transfers-in and other financing sources for the years ended September 30, 2017 and 2016.

Revenues, transfers-in and Other Financing Sources	2017 Amount	% of Total	2016 Amount	Amount of Increase (Decrease)	% Increase (Decrease)
Taxes	\$ 114,111,851	63.71%	\$ 113,666,622	\$ 445,229	0.39%
Licenses and permits	1,994,947	1.11%	1,808,701	186,246	10.30%
Intergovernmental	7,783,963	4.35%	2,760,398	5,023,565	181.99%
Charges for services	6,354,554	3.55%	6,001,013	353,541	5.89%
Fines and forfeitures	1,788,568	1.00%	1,808,320	(19,752)	-1.09%
Investment income	1,151,039	0.64%	1,006,394	144,645	14.37%
Miscellaneous	5,863,023	3.27%	4,710,326	1,152,697	24.47%
Proceeds from capital debt	21,280,587	11.88%	29,459,480	(8,178,893)	-27.76%
Transfers-in	18,770,483	10.48%	31,581,149	(12,810,666)	-40.56%
Totals	<u>\$ 179,099,015</u>	<u>100.00%</u>	<u>\$ 192,802,403</u>	<u>\$ (13,703,388)</u>	<u>-7.11%</u>

The \$445K increase in the taxes category is primarily due to an increase in property and franchise fee taxes of \$2.2M, which was offset by a decrease in sales tax collections of \$1.8M. Licenses and permits and charges for services increase were attributable to an increase in rate charges for building, electrical, and plumbing permits. The decrease of \$20K in fines and forfeitures was due to a decrease in seized funds forfeitures, as well as municipal court fines. Funding from federal and state assistance increased by \$5M due to grant revenue for the Texas Anti Gang Center and Texas Transnational Intelligence Center, public safety projects, as reflected in the intergovernmental revenues’ category. Investment earnings also reflect a moderate increase as compared to last year. The increase of \$1.1M in the miscellaneous category is a result of governmental reimbursements, \$613K, and an increase in several miscellaneous items and grant funding requests. The decrease of \$11.7M in transfers-in was mainly due to the completion of the Performing Arts Center Facility and no longer the need to provide funding assistance to the Performing Arts Construction Fund. This year the City issued \$10.67M in Local Government Finance Corporation Contract Revenue Bonds, Series 2017 for the purpose of providing \$10M of the costs to construct and equip a building and related improvements that will be owned by the City and the Board of Regents of The Texas A&M University System as an academic building or branch campus and Sales Tax Revenue Bonds in the amount of \$10.165M to finance a portion of the two new parking garages at the La Plaza Mall in the City.

City of McAllen, Texas
Management Discussion and Analysis (Unaudited)
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Expenditures and Transfers-Out

The following table presents a summary of general fund, special revenue funds, debt service fund and capital projects funds expenditures, transfers-out for the years ended September 30, 2017 and 2016.

Expenditures and Transfers-out	2017 Amount	% of Total	2016 Amount	Amount of Increase (Decrease)	% Increase (Decrease)
General government	\$ 53,967,801	27.46%	\$ 37,765,082	\$ 16,202,719	42.90%
Public safety	63,440,519	32.28%	56,512,051	6,928,468	12.26%
Highways and streets	16,420,935	8.35%	19,672,725	(3,251,790)	-16.53%
Health and welfare	8,062,409	4.10%	5,596,042	2,466,367	44.07%
Culture and recreation	29,900,205	15.21%	52,026,665	(22,126,460)	-42.53%
Debt service:					
Principal	4,830,000	2.46%	4,765,000	65,000	1.36%
Interest and fiscal charges	4,017,840	2.04%	2,567,009	1,450,831	56.52%
Transfers-out	15,917,784	8.10%	16,700,887	(783,103)	-4.69%
Totals	<u>\$ 196,557,493</u>	<u>100.00%</u>	<u>\$ 195,605,461</u>	<u>\$ 952,032</u>	<u>0.49%</u>

The increase of \$16.2M in general government expenditures was primarily due to an increase of \$18M in the bond construction costs for public infrastructure improvements associated with Tax Increment Zone #1 (TIRZ #1), which was offset by underspending in various departments of the General Fund. Health and welfare increased \$2M, as this year there was a \$1M payment to the Doctor's Hospital medical district, as well as relief effort expenditures. Culture and recreation functions decreased \$22M due to the grand opening of the Performing Arts Fund facility and the completion of the Performing Arts Construction Fund bond project. Public Safety functions increased \$6.9M, which was due to the \$3.8M construction costs toward a PD parking garage facility, as well as the renovation of the old police department building for the Texas Anti Gang Center and Texas Transnational Intelligence Center (TTIC), totaling \$3.1M. Highways and streets function decreased \$3.2M, as the previous fiscal year the City had increased its street repaving maintenance program by \$3.2M to catch up with the annual maintenance repaving schedule, which was a carry over of the unused portion in FY 14-15. Additionally, expenditures increased in principal payments—\$65K, as well as an increase for interest and fiscal charges—\$1.4M, as there were several bond issues in FY 16-17. As indicated, transfers-out increased by \$352K compared to last year—primarily due to a new debt service payment of \$ 208K for the Local Government Finance Corp bonds.

Fund Balances

The governmental fund balances decreased by \$17.5M, from \$122.3M in the prior year to \$104.8M in the current year, which is attributed to the spend down of general obligation and certificate of obligation proceeds received for street improvements, sports facility complex, and the new Performing Arts facility, as well as the transfer of governmental capital assets to the Performing Arts Center Fund, an enterprise fund. Fund balances by major funds are discussed on the following page.

City of McAllen, Texas
Management Discussion and Analysis (Unaudited)
September 30, 2017

General Fund

As a result of this year's operations, total fund balance decreased by \$1.0M—to \$46.4M. Several factors played a role for the reduction in fund balance and can be attributed to three main factors. In September 2017, a budget amendment was approved to transfer \$2.898M of General Fund reserves to the Capital Improvement Fund to assist with anticipated construction projects. Revenue projections outperformed estimates and the City recorded a positive \$1.1M increase in license and permit fees, franchise taxes, and reimbursements. In addition, City departments practiced responsible spending and expenditures came in under budget by approximately \$1.2M. As a result, fund balance was minimally affected by the transfer out to the Capital Improvement Fund. Fund balance categories reflect \$2.989M in non-spendable, \$457K in assigned, leaving \$43M unassigned. During fiscal year 1997-98, the City adopted, by resolution, a financial policy requiring a minimum of 140 days of operating expenses in fund balance. Based upon next year's operating budget, exclusive of capital outlay and transfers-out, unassigned fund balance represents 150 days, which is 10 days in excess of the minimum requirement.

Development Corp Fund

The fund balance in the Development Corporation Fund reflected a decrease of \$63K, leaving the ending restricted fund balance at \$13.7M. Taxable Revenue Bonds were issued in 2017 to finance a portion of the two new parking garages at the La Plaza Mall at the City.

Capital Improvement Fund

The Capital Improvement Fund, whose main funding source is a transfer in from the General Fund from oil and gas royalty proceeds, ended the year with a net increase, amounting to \$2.5M, leaving the assigned fund balance at \$5.2M. As noted above, this fund received an additional transfer in of \$2.898M from the General Fund to assist with planned capital projects.

PROPRIETARY FUND TYPES
(Enterprise Funds and Internal Service Funds)

Enterprise Funds

The City's enterprise operations consist of the McAllen Public Utility (Water and Sewer Funds), Sanitation Fund, Palm View Golf Course Fund, Transit Terminal Fund, Performing Arts Center Fund, McAllen Convention Center, McAllen International Airport Fund, McAllen Express Transit Fund, McAllen International Toll Bridge Fund and the Anzalduas International Crossing Fund. In the aggregate, the proprietary funds reported a \$56.7M increase to net position. Of that amount, the Water and Sewer Funds accounted for approximately \$7.3M; the Sanitation Fund, \$1.4M, the McAllen International Toll Bridge, \$1.4M; and the Performing Arts Center Fund, \$53M. The Convention Center Fund, the Anzalduas International Crossing, the McAllen International Airport, and non-major proprietary funds combined generated a net decrease amounting to \$6.6M.

City of McAllen, Texas
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McAllen Public Utilities (MPU) – Water and Sewer Funds

Water Fund

Operating revenues increased by 4% as compared to last year due to less rainfall throughout the year and summer months, elimination of the city wide water conservation program, and an increase to the monthly minimum base rate. With operating expenses held to last year's totals, the increase to net position amounted to \$1.7M. Combined Water and Sewer Fund working capital is in excess of the board policy of 120 days of operating expenses.

Sewer Fund

Since sewer revenues are impacted by water consumption as noted above, operating revenues increased by 3% from last year due to an increase to the monthly minimum base rate in FY 15-16. Operating expenses decreased 4% under last year, mainly due to a decrease in salary/compensation expense and contractual and other services expense. The net impact to net position was an increase of \$5.6M, leaving combined Water and Sewer Fund working capital in excess of the board policy of 120 days of operating expenses.

Sanitation Fund

This year's operating revenues, representing charges for services, increased \$1M or 6% over prior year, which primarily represents a small increase in growth in the customer base, as well an increase in brush pickup revenue and recycling sales. As a whole, operating expenses increased \$112K or 1% over last year, which is due to contractual and other services and depreciation expenses, leaving an operating income of \$1.3M. The effect of non-operating revenues and capital contributions were reported at \$181K. Consequently, the net position increased by \$1.4M. Working capital as of year-end amounted to \$10.7M.

Convention Center Fund

Operating revenues were \$2.6M and operating expenses were \$6.4M, leaving an operating loss of \$3.8M, which was partially covered by transfers-in from the Hotel Occupancy Tax Fund in the amount of \$1.9M. As a result, the Convention Center reported a decrease in net position of \$2.57M, after a transfer out of \$700K. Working capital is now reported at \$1.16M.

Performing Arts Center Fund

First year operating revenues total \$995K and operating expenses were \$1.6M, leaving an operating loss of \$643K, which was partially covered by transfers-in from the Hotel Occupancy Tax Fund in the amount of \$810K and the Hotel Venue Project Fund, \$271K. In addition, this fund received a transfer in from the Convention Center Fund for a transfer of land totaling \$690K, as well as a transfer of governmental capital assets held in the amount of \$52M. As a result, the Performing Arts Center reported an increase in net position of \$53.2M. Working capital is now reported at \$1.1M.

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McAllen International Airport Fund

Operating revenues decreased this year by 11% from last year's levels due to a decrease in enplanement revenue. Operating expenses increased by 4.3%. The Airport Fund sustained an operating loss of \$2.3M before capital contributions and transfers out. Capital contributions from the Passenger Facility Charge, as well as the FAA, amounted to \$2.4M. Transfers-out to the City amounted to \$1M to reimburse for public safety personnel assigned to the Airport. As a result, a decrease in net position of \$1.5M is reported. This year's working capital is reflected at \$8M, not considering liabilities payable from restricted assets, which are included in current liabilities.

McAllen International Toll Bridge Fund

The table below reflects three types of crossings for 2017, as well as 2016.

Category	FY 16-17	FY 15-16	Increase (Decrease)	% Increase (Decrease)
Cars	2,862,748	2,896,421	(33,673)	-1.16%
Non-Commercial Trucks & Buses	26,631	28,884	(2,253)	-7.80%
Passengers in cars	7,156,870	7,241,053	(84,183)	-1.16%

Southbound car crossings decreased 1.16% and revenues came in at \$12M or a decrease of \$55K under last year. General Services Administration (GSA) rental income increased \$149K compared to budget, however, other miscellaneous rental income remained relatively flat. Operating expenses increased by \$359K over last year due to the increase of facility maintenance personnel and depreciation expense. After considering all other non-operating revenues and expenses, changes in this year's increase in net position totaled \$1.4M.

The Bridge's assets plus deferred outflows of resources exceed liabilities by \$38M at September 30, 2017. Working capital, not considering liabilities payable from restricted assets, which are included in current liabilities, at year end amounted to \$1.2M.

Anzalduas International Crossing

The table below reflects four types of crossings for 2017, as well as 2016. All other categories of crossings reflect decreases, except for trucks-empties, which are noted below.

Category	FY 16-17	FY 15-16	Increase (Decrease)	% Increase (Decrease)
Cars	966,364	1,015,219	(48,855)	-4.81%
Trucks - empties	15,528	732	14,796	2021.31%
Buses	1,374	1,636	(262)	-16.01%
Passengers in cars	2,415,910	2,538,048	(122,138)	-4.81%

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Southbound car crossings decreased 49K or 4.81% with revenues coming in at \$3.7M, a decrease of \$79K from last year. Operating expenses decreased by \$1.1M over last year, as the one lane construction project on the Mexico side was completed the previous year. After a transfer in of \$914K, the change in net position was a negative \$520K. This resulted in an ending net position deficit of \$2.6M.

Unrestricted net position is reflected as a deficit in the amount of \$15.9M, largely the consequence of advances made to it by the McAllen International Toll Bridge Fund.

General Fund Budgetary Highlights

During the year, the City Commission amended the budget several times. The increase from the original appropriations to the final budget appropriations was approximately \$4.0M. This increase was primarily due to a transfer out to the Capital Improvement Fund for \$2.898M to assist with capital improvement projects.

Pensions and Retiree Healthcare

Effective for fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" created specific reporting requirements for pensions that are different than that used for funding purposes. Valuations are important as the reporting valuation provides a rigorous standard measure that can be used to compare the City's pension liabilities to other governments from around the nation. The funding valuation is important as the actuarial methods used including strategies for repaying any unfunded actuarial accrued liabilities combined with the City's history of making those contributions provides insights regarding the City's commitment to and the effectiveness of its funding strategy. Information contained in the financial statements themselves including the first schedule of Required Supplementary Information (RSI), Schedule of Changes in Net Pension Liability and Related Ratios, is based on the reporting valuation. The second schedule in the RSI, Schedule of Contributions, is based on the funding valuation. On a reporting basis, the City's financial statements reflect a Net Pension Liability as of September 30, 2017 of \$ 26,896,244, which is 40.05% of the City's annual covered payroll of \$67,161,351.

The Firemen's Relief & Retirement Fund (the Plan) reflects a Net Pension Liability as of September 30, 2017 of \$25,632,406, which is 222.42% of the Plan's annual covered payroll of \$11,524,569. Information contained in the financial statements themselves including the third schedule of Required Supplementary Information (RSI), Schedule of Changes in Net Pension Liability and Related Ratios, is based on the reporting valuation. The fourth schedule in the RSI, Schedule of Contributions, is based on the funding valuation.

Retiree health care's net OPEB liability has been calculated in accordance with GASB Statement No.45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," to be \$1,144,838, as of September 30, 2017.

City of McAllen, Texas
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CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year, the City had \$801M in net capital assets, which is reflected below:

Capital Assets at Year-end
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
	Land	\$ 81	\$ 58	\$ 21	\$ 21	\$ 102
Buildings and improvements	151	147	617	550	768	697
Equipment	88	89	68	66	156	155
Infrastructure	223	216	-	-	223	216
Construction in progress	19	62	76	60	95	122
Capitalized interest	-	-	-	-	-	-
Water rights	-	-	9	8	9	8
Accumulated depreciation	(259)	(247)	(293)	(271)	(552)	(518)
Net Capital Assets	\$ 303	\$ 325	\$ 498	\$ 434	\$ 801	\$ 759

This year's major additions included the following projects (in millions):

Performing Arts Center Construction	\$4
Street projects financed by the City directly and dedicated by developers	2
Public Safety Anti-Gang/Intelligence Center project	4
Public Safety Building Improvements	2
Airport projects	1
Water and Sewer improvement projects	<u>28</u>
Total	<u>\$41</u>

For more detailed information on capital asset activity, refer to the notes to financial statements (refer to pages 75 and 77).

**City of McAllen, Texas
Management's Discussion and Analysis (Unaudited)
September 30, 2017**

Debt

At the end of the fiscal year, the City had \$267M in bonds outstanding—as shown in the following table:

	Outstanding Debt at Year-end (in Millions)					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
General/certificate of obligation bonds/note (backed by the City)	\$ 94	\$ 88	\$ -	\$ -	\$ 94	\$ 88
Revenue bonds backed by Specific tax and fee revenues	<u>15</u>	<u>5</u>	<u>158</u>	<u>159</u>	<u>173</u>	<u>164</u>
Totals	<u>\$ 109</u>	<u>\$ 93</u>	<u>\$ 158</u>	<u>\$ 159</u>	<u>\$ 267</u>	<u>\$ 252</u>

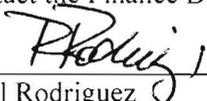
For more detailed information on long term debt activity, refer to the notes to financial statements (refer to page 91).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

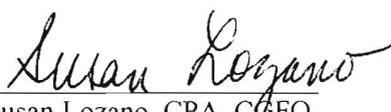
During the budget process for fiscal year 2017-18 the elected and appointed officials considered many factors including the forces driving the economy—among which were slowing of job growth, bank deposits, retail sales growth, the unemployment rate, peso devaluation, and inflation. As a result of the deliberations, within the General Fund, revenues were budgeted to increase from last year's budget by \$877K or more than 1.00%. Expenditures were budgeted with a \$572K decrease or .53% under this year's budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to inform the citizens, taxpayers and customers of the City of McAllen as well as its investors and creditors about the City's finances and to provide accountability for the public support that it receives. If you have any questions about the report or need additional financial information, contact the Finance Director's Office at the City of McAllen, 1300 Houston, McAllen, Texas 78501.



Roel Rodriguez
City Manager



Susan Lozano, CPA, CFO
Finance Director

CITY OF McALLEN, TEXAS
STATEMENT OF NET POSITION
September 30, 2017

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash	\$ 7,482,762	\$ 2,615,221	\$ 10,097,983
Certificate of deposits	8,292,400	-	8,292,400
Investments	114,980,544	28,679,528	143,660,072
Receivables, net	22,450,847	8,282,827	30,733,674
Internal balances	(1,447,434)	1,447,434	-
Inventories	-	499,567	499,567
Prepaid items	884,091	100,986	985,077
Notes receivable	-	163,144	163,144
Restricted assets	-	83,661,444	83,661,444
Capital assets not being depreciated:			
Land	80,870,681	20,896,105	101,766,786
Construction in progress	19,471,756	75,973,206	95,444,962
Water rights (perpetual)	-	6,023,500	6,023,500
Goodwill	-	609,713	609,713
Capital assets being depreciated:			
Buildings and systems	93,951,704	362,383,802	456,335,506
Equipment	87,700,782	68,305,433	156,006,215
Improvements	56,861,679	253,599,064	310,460,743
Infrastructure	223,273,137	-	223,273,137
Water rights	-	3,200,000	3,200,000
Accumulated depreciation	(259,525,433)	(293,293,417)	(552,818,850)
Other long term assets	2,920,130	-	2,920,130
Total assets	<u>458,167,646</u>	<u>623,147,557</u>	<u>1,081,315,203</u>
Deferred outflows of resources:			
Deferred charges on refunding	-	3,707,470	3,707,470
Deferred charges-pensions	14,048,813	6,192,883	20,241,696
Total deferred outflows of resources	<u>14,048,813</u>	<u>9,900,353</u>	<u>23,949,166</u>
Total assets and deferred outflows of resources	<u>\$ 472,216,459</u>	<u>\$ 633,047,910</u>	<u>\$ 1,105,264,369</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 16,856,293	\$ 12,234,165	\$ 29,090,458
Unearned revenues	390,101	1,098,116	1,488,217
Other	1,124,723	313,705	1,438,428
Non-current liabilities:			
Due within one year	9,257,359	8,633,601	17,890,960
Due in more than one year	113,808,329	161,182,546	274,990,875
Net OPEB obligation	1,144,838	-	1,144,838
Net pension liability	44,305,332	8,223,318	52,528,650
Total liabilities	<u>186,886,975</u>	<u>191,685,451</u>	<u>378,572,426</u>
Deferred inflows of resources:			
Deferred charges on refunding	198,774	5,085,402	5,284,176
Deferred charges-pensions	3,550,670	4,275	3,554,945
Total deferred inflows of resources	<u>3,749,444</u>	<u>5,089,677</u>	<u>8,839,121</u>
Total liabilities and deferred inflows of resources	<u>190,636,419</u>	<u>196,775,128</u>	<u>387,411,547</u>
NET POSITION			
Net investment in capital assets	220,553,878	332,816,366	553,370,244
Restricted for:			
Capital projects	-	50,921,674	50,921,674
Federal and state grant awards	3,408,687	-	3,408,687
Hotel Tourism	73,178	-	73,178
Parks	1,961,439	-	1,961,439
Debt service	2,372,556	7,002,333	9,374,889
Economic development	13,763,594	-	13,763,594
Distribution of net surplus revenues	-	5,711,863	5,711,863
Other purposes	1,383,797	-	1,383,797
Unrestricted	<u>38,062,911</u>	<u>39,820,546</u>	<u>77,883,457</u>
Total net position	<u>281,580,040</u>	<u>436,272,782</u>	<u>717,852,822</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 472,216,459</u>	<u>\$ 633,047,910</u>	<u>\$ 1,105,264,369</u>

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

CITY OF McALLEN, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2017

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 43,779,576	\$ 2,430,066	\$ 821,874	\$ -
Public safety	61,676,966	4,320,581	2,713,010	2,354,157
Highways and streets	21,126,938	1,114,907	383	1,314,033
Health and welfare	8,305,076	446,902	866,830	-
Culture and recreation	28,074,221	1,278,037	72,183	1,047,651
Interest on long-term debt	3,418,388	-	-	-
Total governmental activities	166,381,165	9,590,493	4,474,280	4,715,841
Business-type activities:				
Water services	19,213,848	19,407,111	-	1,229,691
Sewer services	14,568,734	17,704,596	-	2,117,572
Sanitation services	18,110,918	19,230,472	-	-
Golf course services	1,449,564	1,136,800	-	-
Civic center services	154	-	-	-
Performing arts center services	1,638,310	995,281	-	-
Convention center services	6,259,718	2,386,002	-	-
Airport services	9,180,118	6,374,601	-	2,392,868
Transit services	1,688,647	57,580	481,147	330,979
Bus services	3,832,463	938,452	1,373,834	2,231
Bridge services--anzalduas	5,181,228	3,700,666	-	-
Bridge services	7,542,209	14,728,300	-	86,424
Total business-type activities	88,665,911	86,659,861	1,854,981	6,159,765
Total primary government	255,047,076	96,250,354	6,329,261	10,875,606
General revenues:				
Property taxes				
Hotel occupancy tax				
Sales taxes				
Franchise taxes				
Unrestricted investment earnings				
Royalties				
Contributions				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position - beginning				
Net position - ending				

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

Net (Expenses) Revenues and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (40,527,636)	\$ -	\$ (40,527,636)
(52,289,218)	-	(52,289,218)
(18,697,615)	-	(18,697,615)
(6,991,344)	-	(6,991,344)
(25,676,350)	-	(25,676,350)
(3,418,388)	-	(3,418,388)
<u>(147,600,551)</u>	<u>-</u>	<u>(147,600,551)</u>
-	1,422,954	1,422,954
-	5,253,434	5,253,434
-	1,119,554	1,119,554
-	(312,764)	(312,764)
-	(154)	(154)
-	(643,029)	(643,029)
-	(3,873,716)	(3,873,716)
-	(412,649)	(412,649)
-	(818,941)	(818,941)
-	(1,517,946)	(1,517,946)
-	(1,480,562)	(1,480,562)
-	7,272,515	7,272,515
-	6,008,696	6,008,696
<u>(147,600,551)</u>	<u>6,008,696</u>	<u>(141,591,855)</u>
42,975,582	-	42,975,582
4,946,155	-	4,946,155
59,488,228	-	59,488,228
6,801,740	-	6,801,740
1,477,050	729,638	2,206,688
620,011	-	620,011
22,969,640	-	22,969,640
1,503,250	217,595	1,720,845
(49,128,923)	49,128,923	-
<u>91,652,733</u>	<u>50,076,156</u>	<u>141,728,889</u>
(55,947,818)	56,084,852	137,034
<u>337,527,858</u>	<u>380,187,930</u>	<u>717,715,788</u>
<u>\$ 281,580,040</u>	<u>\$ 436,272,782</u>	<u>\$ 717,852,822</u>

CITY OF McALLEN, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2017

	General	Development Corp.
ASSETS		
Cash	\$ 6,256,545	\$ 87,435
Certificates of deposit	-	-
Investments	38,042,934	15,656,514
Receivables, net:		
Taxes	11,928,602	2,426,422
Accounts	1,543,468	-
Accrued interest	95,508	30,243
Other	573,961	-
Due from other funds	1,787,607	-
Due from other governments	834,478	489,035
Prepays	69,048	53,659
Board advances	2,920,130	-
Total assets	\$ 64,052,281	\$ 18,743,308
Total assets and deferred outflows of resources	\$ 64,052,281	\$ 18,743,308
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 2,010,722	\$ 335,470
Accrued liabilities	1,149,823	3,375,498
Due to other funds	-	-
Unearned revenues	390,101	-
Other	1,059,723	-
Total liabilities	4,610,369	3,710,968
Deferred inflows of resources	13,054,364	1,267,729
Total liabilities and deferred inflows of resources	17,664,733	4,978,697
Fund balances:		
Non-spendable	2,989,178	53,659
Restricted	-	13,710,952
Committed	-	-
Assigned	457,022	-
Unassigned	42,941,348	-
Total fund balances	46,387,548	13,764,611
Total liabilities, deferred inflows of resources, and fund balances	\$ 64,052,281	\$ 18,743,308

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

<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 63,293	\$ 608,652	\$ 7,015,925
-	8,292,400	8,292,400
5,725,153	36,785,267	96,209,868
-	253,624	14,608,648
-	1,160,271	2,703,739
9,844	16,125	151,720
-	84,496	658,457
-	-	1,787,607
-	2,391,145	3,714,658
-	-	122,707
-	-	2,920,130
<u>\$ 5,798,290</u>	<u>\$ 49,591,980</u>	<u>\$ 138,185,859</u>
<u>\$ 5,798,290</u>	<u>\$ 49,591,980</u>	<u>\$ 138,185,859</u>
\$ 511,882	\$ 5,689,531	\$ 8,547,605
69,985	889,641	5,484,947
-	1,952,320	1,952,320
-	-	390,101
-	65,000	1,124,723
<u>581,867</u>	<u>8,596,492</u>	<u>17,499,696</u>
-	1,505,770	15,827,863
<u>581,867</u>	<u>10,102,262</u>	<u>33,327,559</u>
-	-	3,042,837
-	39,003,438	52,714,390
-	290,623	290,623
5,216,423	195,657	5,869,102
-	-	42,941,348
<u>5,216,423</u>	<u>39,489,718</u>	<u>104,858,300</u>
<u>\$ 5,798,290</u>	<u>\$ 49,591,980</u>	<u>\$ 138,185,859</u>

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CITY OF McALLEN, TEXAS
Reconciliation of the Balance Sheet of the Governmental Funds
to the Statement of Net Position
September 30, 2017

Total governmental fund balances (refer to page 23)	\$ 104,858,300
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	289,216,394
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. The amount consists of the following: property taxes-\$4,215,998; sales and franchise taxes-\$5,070,916; weed and lot cleaning-\$852,387; others; \$2,768,432 and Mission repayment on Series B Bridge bonds, \$2,920,130.	15,827,863
Internal service funds are used by management to charge the costs of certain activities, such as fleet management and insurance, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net position.	30,387,188
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds, including unpaid compensated absences, (\$10,898,599), sales tax revenue bonds payable, (\$15,285,000), accrued interest, (\$514,456), certificates of obligations, (\$45,940,000), general obligations, (\$48,170,000), premium, (\$2,904,164), discount, \$153,315, deferred inflows of resources, (\$3,749,444), Firemen's pension obligation, (\$25,632,406), OPEB obligation, (\$1,144,838), deferred outflows of resources, \$14,048,813, and TMRS pension obligation, (\$18,672,926).	<u>(158,709,705)</u>
Net position of governmental activities	<u>\$ 281,580,040</u>

CITY OF McALLEN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2017

	General	Development Corp
REVENUES		
Taxes	\$ 89,889,495	\$ 14,655,387
Licenses and permits	1,979,043	-
Intergovernmental	586,511	501,978
Charges for services	5,245,594	-
Fines and forfeitures	1,303,985	-
Investment earnings	666,939	139,349
Net (decrease) in the fair value of investments	(120,833)	(37,536)
Other	2,192,380	1,323,592
	<u>101,743,114</u>	<u>16,582,770</u>
EXPENDITURES		
Current:		
General government	17,988,679	14,608,239
Public safety	55,317,037	-
Highways and streets	11,581,117	786,453
Health and welfare	2,722,980	4,478,098
Culture and recreation	18,590,298	2,137,566
Debt service:		
Principal	-	-
Interest and fiscal charges	-	298,320
	<u>106,200,111</u>	<u>22,308,676</u>
Excess of revenues over (under) expenditures	<u>(4,456,997)</u>	<u>(5,725,906)</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	10,530,587	-
Transfers out	(7,136,112)	(4,501,980)
Issuance of debt	-	10,165,000
Bond premium	-	-
	<u>3,394,475</u>	<u>5,663,020</u>
Net change in fund balances	(1,062,522)	(62,886)
Fund balances at beginning of year	<u>47,450,070</u>	<u>13,827,497</u>
Fund balances at end of year	<u>\$ 46,387,548</u>	<u>\$ 13,764,611</u>

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

<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 9,566,969	\$ 114,111,851
-	15,904	1,994,947
-	6,695,474	7,783,963
-	1,108,960	6,354,554
-	484,583	1,788,568
25,169	486,146	1,317,603
(4,105)	(4,090)	(166,564)
<u>615,486</u>	<u>1,731,565</u>	<u>5,863,023</u>
<u>636,550</u>	<u>20,085,511</u>	<u>139,047,945</u>
527,041	20,843,842	53,967,801
626,509	7,496,973	63,440,519
340,272	3,713,093	16,420,935
-	861,331	8,062,409
493,405	8,678,936	29,900,205
-	4,830,000	4,830,000
-	3,719,520	4,017,840
<u>1,987,227</u>	<u>50,143,695</u>	<u>180,639,709</u>
<u>(1,350,677)</u>	<u>(30,058,184)</u>	<u>(41,591,764)</u>
3,870,097	4,369,799	18,770,483
-	(4,279,692)	(15,917,784)
-	10,670,000	20,835,000
-	445,587	445,587
<u>3,870,097</u>	<u>11,205,694</u>	<u>24,133,286</u>
2,519,420	(18,852,490)	(17,458,478)
<u>2,697,003</u>	<u>58,342,208</u>	<u>122,316,778</u>
<u>\$ 5,216,423</u>	<u>\$ 39,489,718</u>	<u>\$ 104,858,300</u>

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CITY OF McALLEN, TEXAS
Reconciliation of the Statement of Revenues
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended September 30, 2017

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

Net change in fund balances--total governmental funds (refer to page 27) \$ (17,458,478)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays \$32,968,687 exceeded depreciation, net of depreciation (\$14,464,437) in the current period. 18,504,250

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 1,083,441

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 4,830,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds of which \$539,435 is compensated absences, (\$21,224) accrued interest expense, \$620,676 bond amortization expense, (\$1,257,155) Firemen's Fund net pension obligation, (\$3,277,324), pension expense, and \$184,762 OPEB expense. (3,210,830)

Internal service funds are used by management to charge the costs of certain activities, such as fleet management and insurance, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities. 741,530

Certificate of obligation bonds, \$10,670,000, sales tax revenue bonds, \$10,165,000, and premium, \$445,587, provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. (21,280,587)

The movement of capital assets between governmental activities to business type activities is reported as a transfer. Thus, the change in net position differs from the change in fund balance by the cost of the capital assets transferred to a BTA fund, \$52,317,144. (52,317,144)

The City received a donation of land from the Tres Lagos PID for a total of \$13,160,000 13,160,000

Change in net position of governmental activities \$ (55,947,818)

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

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CITY OF McALLEN, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Taxes:				
Property	\$ 39,086,058	\$ 39,086,058	\$ 38,414,083	\$ (671,975)
Sales	46,011,201	44,264,359	43,966,165	(298,194)
Franchise	6,477,500	6,577,500	7,509,247	931,747
Total taxes	<u>91,574,759</u>	<u>89,927,917</u>	<u>89,889,495</u>	<u>(38,422)</u>
Licenses and permits:				
Business licenses and permits	55,000	55,000	70,365	15,365
Occupational	339,350	339,350	324,033	(15,317)
Non-business licenses and permits	1,298,780	1,489,780	1,584,645	94,865
Total licenses and permits	<u>1,693,130</u>	<u>1,884,130</u>	<u>1,979,043</u>	<u>94,913</u>
Intergovernmental revenues:				
State shared revenues	834,000	834,000	586,511	(247,489)
Total intergovernmental revenues	<u>834,000</u>	<u>834,000</u>	<u>586,511</u>	<u>(247,489)</u>
Charges for services:				
General government	2,161,750	2,408,873	2,444,973	36,100
Public safety	663,000	897,200	792,454	(104,746)
Highways and streets	-	-	5,949	5,949
Health	708,650	808,650	766,999	(41,651)
Culture and recreation	1,162,200	1,233,904	1,235,219	1,315
Total charges for services	<u>4,695,600</u>	<u>5,348,627</u>	<u>5,245,594</u>	<u>(103,033)</u>
Fines and forfeitures:				
Corporations court	1,400,000	1,200,000	1,261,170	61,170
Other fines	161,538	169,539	42,815	(126,724)
Total fines and forfeitures	<u>1,561,538</u>	<u>1,369,539</u>	<u>1,303,985</u>	<u>(65,554)</u>
Investment earnings	420,000	573,000	666,939	93,939
Net (decrease) in fair value of investments	\$ -	\$ -	\$ (120,833)	(120,833)

CITY OF McALLEN, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Other:				
Royalties	430,000	430,000	620,011	190,011
Rents and concessions	-	-	5,500	5,500
Reimbursements	350,000	556,729	1,120,780	564,051
Other	28,600	58,600	446,089	387,489
Total other revenues	<u>808,600</u>	<u>1,045,329</u>	<u>2,192,380</u>	<u>1,147,051</u>
Total revenues	<u>101,587,627</u>	<u>100,982,542</u>	<u>101,743,114</u>	<u>760,572</u>
EXPENDITURES				
General government:				
City commission	277,962	277,962	229,309	48,653
Special service	787,411	787,411	657,470	129,941
City manager	1,321,381	1,321,381	1,352,222	(30,841)
City secretary	511,073	511,073	499,379	11,694
Vital statistics	174,893	177,156	161,843	15,313
Passport facility	94,599	94,599	101,592	(6,993)
Audit office	215,927	215,927	211,765	4,162
Municipal court	1,556,331	1,564,332	1,354,263	210,069
Finance	1,267,828	1,267,828	1,220,873	46,955
Budget & management	392,022	392,022	368,927	23,095
Tax office	1,123,143	1,123,143	1,052,595	70,548
Purchasing and contracting	596,496	596,496	509,960	86,536
Legal	1,661,533	1,661,533	1,683,397	(21,864)
Grant administration	481,435	481,435	450,164	31,271
Human resources	853,364	853,364	599,854	253,510
Risk management	457,085	457,085	457,085	-
Planning	1,201,307	1,201,307	896,883	304,424
Information technology	3,235,871	3,235,871	3,133,880	101,991
Public information office	748,617	748,617	689,403	59,214
311 Call center	239,076	239,076	219,008	20,068
City hall	610,055	610,555	616,743	(6,188)
Development Center	110,575	110,575	101,390	9,185
Building maintenance	756,178	756,178	733,477	22,701
Contingency	(1,019,555)	(1,019,555)	-	(1,019,555)
Non-departmental activities	691,051	734,089	687,197	46,892
Total general government	<u>18,345,658</u>	<u>18,399,460</u>	<u>17,988,679</u>	<u>410,781</u>

CITY OF McALLEN, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Public safety:				
Police	\$ 32,879,389	\$ 32,879,389	\$ 33,063,251	\$ (183,862)
Animal control	358,514	358,514	292,053	66,461
Radio Shop	503,539	503,539	549,150	(45,611)
Fire	17,352,843	17,483,034	18,509,749	(1,026,715)
Traffic operations	2,506,950	2,506,950	1,902,245	604,705
Building code compliance	1,052,956	1,052,956	1,000,589	52,367
Total public safety	<u>54,654,191</u>	<u>54,784,382</u>	<u>55,317,037</u>	<u>(532,655)</u>
Highways and streets:				
Engineering services	1,849,145	1,849,145	1,639,691	209,454
Street maintenance	6,217,058	6,217,058	5,659,779	557,279
Street lighting	1,977,001	2,479,001	2,468,884	10,117
Sidewalk construction	343,921	343,921	280,242	63,679
Drainage	1,499,120	1,499,120	1,532,521	(33,401)
Total highways and streets	<u>11,886,245</u>	<u>12,388,245</u>	<u>11,581,117</u>	<u>807,128</u>
Health and welfare:				
Health code compliance	1,297,253	1,392,581	1,404,985	(12,404)
Graffiti cleaning	148,323	148,323	153,966	(5,643)
Other agencies	567,662	797,276	1,164,029	(366,753)
Total health and welfare	<u>2,013,238</u>	<u>2,338,180</u>	<u>2,722,980</u>	<u>(384,800)</u>
Culture and recreation:				
Parks and recreation administration	558,625	558,625	511,736	46,889
Parks	7,464,650	7,464,650	7,002,541	462,109
Recreation	1,711,818	1,711,818	1,781,047	(69,229)
Pools	948,958	948,958	838,036	110,922
Las palmas community center	374,668	374,668	330,075	44,593
Recreation center-Lark	488,108	488,108	441,112	46,996
Recreation center-Palmview	465,666	465,666	438,120	27,546

CITY OF McALLEN, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	Variance with Final Budget Positive (Negative)
Quinta mazatlan	\$ 953,983	\$ 1,025,687	\$ 1,097,915	\$ (72,228)
Library	3,572,495	3,572,495	3,402,575	169,920
Library branch-Lark	494,027	504,027	459,461	44,566
Library branch-Palmview	509,732	529,732	464,560	65,172
Other agencies	1,028,122	1,088,122	1,088,120	2
Museums	735,000	735,000	735,000	-
Total culture and recreation	<u>19,305,852</u>	<u>19,467,556</u>	<u>18,590,298</u>	<u>877,258</u>
Total expenditures	<u>106,205,184</u>	<u>107,377,823</u>	<u>106,200,111</u>	<u>1,177,712</u>
Excess of revenues over expenditures	<u>(4,617,557)</u>	<u>(6,395,281)</u>	<u>(4,456,997)</u>	<u>1,938,284</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	10,140,809	10,530,587	10,530,587	-
Transfers out	<u>(4,048,731)</u>	<u>(6,946,101)</u>	<u>(7,136,112)</u>	<u>(190,011)</u>
Net other financing sources (uses)	<u>6,092,078</u>	<u>3,584,486</u>	<u>3,394,475</u>	<u>(190,011)</u>
Net change in fund balances	1,474,521	(2,810,795)	(1,062,522)	1,748,273
Fund balances at beginning of year	<u>47,450,070</u>	<u>47,450,070</u>	<u>47,450,070</u>	<u>-</u>
Fund balances at end of year	<u>\$ 48,924,591</u>	<u>\$ 44,639,275</u>	<u>\$ 46,387,548</u>	<u>\$ 1,748,273</u>

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

CITY OF McALLEN, TEXAS
DEVELOPMENT CORPORATION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Sales tax	\$ 15,468,392	\$ 15,468,392	\$ 14,655,387	\$ (813,005)
Intergovernmental revenues	7,332,694	7,332,694	501,978	(6,830,716)
Investment earnings	50,000	50,000	139,349	89,349
Net (decrease) in the fair value of investments	-	-	(37,536)	(37,536)
Other	1,130,000	1,130,000	1,323,592	193,592
Total revenues	<u>23,981,086</u>	<u>23,981,086</u>	<u>16,582,770</u>	<u>(7,398,316)</u>
EXPENDITURES				
Current:				
General government	6,808,229	6,808,229	14,608,239	(7,800,010)
Highways and streets	8,339,406	8,339,406	786,453	7,552,953
Health and welfare	3,481,193	3,481,193	4,478,098	(996,905)
Culture and recreation	4,741,495	4,741,495	2,137,566	2,603,929
Debt service:				
Interest and fiscal charges	-	-	298,320	(298,320)
Total expenditures	<u>23,370,323</u>	<u>23,370,323</u>	<u>22,308,676</u>	<u>1,061,647</u>
Excess (deficiency) of revenues over expenditures	<u>610,763</u>	<u>610,763</u>	<u>(5,725,906)</u>	<u>(6,336,669)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(4,596,471)	(4,596,471)	(4,501,980)	(94,491)
Issuance of debt	-	-	10,165,000	10,165,000
Total other financing sources (uses)	<u>(4,596,471)</u>	<u>(4,596,471)</u>	<u>5,663,020</u>	<u>10,070,509</u>
Net changes in fund balances	(3,985,708)	(3,985,708)	(62,886)	3,922,822
Fund balances--beginning	<u>13,827,497</u>	<u>13,827,497</u>	<u>13,827,497</u>	<u>-</u>
Fund balances--ending	<u>\$ 9,841,789</u>	<u>\$ 9,841,789</u>	<u>\$ 13,764,611</u>	<u>\$ 3,922,822</u>

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

	Business Type Activities-Enterprise Funds				
	Water	Sewer	Sanitation	Convention Center	McAllen International Airport
ASSETS					
Current assets:					
Cash	\$ 466,216	\$ 330,435	\$ 285,886	\$ 62,051	\$ 658,317
Investments	3,510,768	704,446	8,959,218	1,311,140	7,666,486
Receivables, net:					
Accounts	2,145,834	1,861,367	1,997,045	22,011	84,900
Accrued interest	14,578	-	23,322	5,463	24,253
Other	-	13,001	-	-	-
Due from other funds	-	-	-	127,071	-
Due from other governments	-	-	1,073	-	750,873
Interfund loans	-	-	-	-	-
Inventories, at cost	155,365	-	-	-	-
Prepaid items	8,887	5,587	260	85,013	1,239
Restricted assets:					
Cash and cash equivalents	132,696	1,035,516	4,176	26,794	162,474
Total current assets	6,434,344	3,950,352	11,270,980	1,639,543	9,348,542
Noncurrent assets:					
Restricted assets:					
Investments	16,274,090	36,905,027	9,259,179	1,934,477	6,953,951
Accrued interest	31,776	43,716	20,113	2,868	16,065
Due from other governments	-	-	-	-	151,631
Total noncurrent restricted assets	16,305,866	36,948,743	9,279,292	1,937,345	7,121,647
Capital assets:					
Land	3,070,465	2,288,247	1,101,490	4,889,373	3,251,781
Buildings and systems	68,027,591	118,158,304	2,436,292	56,281,224	32,516,369
Improvements other than buildings	62,412,164	37,549,994	706,365	6,733,381	94,929,986
Machinery and equipment	8,273,785	7,982,670	28,493,904	3,559,956	3,152,385
Construction in progress	1,603,977	71,279,783	77,340	60,000	1,042,100
Goodwill	-	-	-	-	-
Water rights	9,223,500	-	-	-	-
Less accumulated depreciation and amortization	(72,695,366)	(79,015,448)	(21,020,961)	(17,063,798)	(61,521,135)
Total capital assets (net of accumulated depreciation and amortization)	79,916,116	158,243,550	11,794,430	54,460,136	73,371,486
Other noncurrent assets					
Loans receivable	81,795	81,349	-	-	-
Board advances	-	-	-	-	-
Total other noncurrent assets	81,795	81,349	-	-	-
Total noncurrent assets	96,303,777	195,273,642	21,073,722	56,397,481	80,493,133
Total assets	102,738,121	199,223,994	32,344,702	58,037,024	89,841,675
Deferred outflow of resources					
Deferred charges on refundings	3,707,471	-	-	-	-
Deferred charges - pensions	1,510,009	932,652	1,643,162	444,634	387,466
Total assets and deferred outflows of resources	\$ 107,955,601	\$ 200,156,646	\$ 33,987,864	\$ 58,481,658	\$ 90,229,141

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

Business-type Activities-Enterprise Funds					Governmental Activities
McAllen International Toll Bridge	Anzalduas International Crossing	Performing Arts Center	Other Proprietary Funds	Total	Internal Service Funds
\$ 214,560	\$ 145,352	\$ 70,156	\$ 161,176	\$ 2,394,149	\$ 687,909
1,849,333	1,647,336	1,024,552	2,006,249	28,679,528	18,770,676
310	-	-	23,134	6,134,601	497,667
-	2,585	-	1,979	72,180	52,548
-	-	-	-	13,001	299,418
-	-	54,463	-	181,534	517,893
175,493	-	-	883,333	1,810,772	16,265
-	-	-	-	-	3,499,570
-	-	-	-	155,365	344,202
-	-	-	-	100,986	761,384
<u>117,677</u>	<u>50,895</u>	<u>25,000</u>	<u>3,469</u>	<u>1,558,697</u>	<u>-</u>
<u>2,357,373</u>	<u>1,846,168</u>	<u>1,174,171</u>	<u>3,079,340</u>	<u>41,100,813</u>	<u>25,447,532</u>
8,041,369	1,782,100	226,087	364,840	81,741,120	-
8,136	-	-	898	123,572	-
86,424	-	-	-	238,055	-
<u>8,135,929</u>	<u>1,782,100</u>	<u>226,087</u>	<u>365,738</u>	<u>82,102,747</u>	<u>-</u>
809,233	2,922,773	690,155	1,872,588	20,896,105	6,774,733
14,415,500	10,415,086	50,955,008	5,830,564	359,035,938	-
4,123,982	40,473,457	-	9,884,776	256,814,105	132,823
2,480,732	970,334	1,127,405	11,421,840	67,463,011	26,252,489
1,450,153	244,528	-	215,325	75,973,206	-
609,713	-	-	-	609,713	-
-	-	-	-	9,223,500	-
<u>(12,287,467)</u>	<u>(11,843,120)</u>	<u>(766,785)</u>	<u>(16,377,959)</u>	<u>(292,592,039)</u>	<u>(19,498,266)</u>
<u>11,601,846</u>	<u>43,183,058</u>	<u>52,005,783</u>	<u>12,847,134</u>	<u>497,423,539</u>	<u>13,661,779</u>
-	-	-	-	163,144	-
17,633,893	-	-	-	17,633,893	-
17,633,893	-	-	-	17,797,037	-
<u>37,371,668</u>	<u>44,965,158</u>	<u>52,231,870</u>	<u>13,212,872</u>	<u>597,323,323</u>	<u>13,661,779</u>
<u>39,729,041</u>	<u>46,811,326</u>	<u>53,406,041</u>	<u>16,292,212</u>	<u>638,424,136</u>	<u>39,109,311</u>
-	-	-	-	3,707,471	-
303,117	106,128	-	629,632	5,956,800	236,082
<u>\$ 40,032,158</u>	<u>\$ 46,917,454</u>	<u>\$ 53,406,041</u>	<u>\$ 16,921,844</u>	<u>\$ 648,088,407</u>	<u>\$ 39,345,393</u>

Continued

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

	Business Type Activities-Enterprise Funds				
	Water	Sewer	Sanitation	Convention Center	McAllen International Airport
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 467,993	\$ 2,179,559	\$ 744,501	\$ 188,424	\$ 375,583
Accrued expenses	262,641	3,193,859	118,288	26,697	113,338
Due to other funds	-	-	-	-	-
Due to other government agencies	-	-	-	-	-
Customer deposits payable	2,552,966	-	-	32,395	-
Compensated absences	335,261	215,525	327,284	59,292	97,881
Current portion of revenue bonds	1,385,850	4,161,150	-	-	415,000
Current portion of note payable	-	-	-	-	358,100
Other	38	100,000	-	172,526	38,726
Total current liabilities	5,004,749	9,850,093	1,190,073	479,334	1,398,628
Other noncurrent liabilities:					
Revenue bonds, net of current portion	18,187,732	101,793,328	-	-	7,150,000
Compensated absences	204,882	154,956	159,289	61,994	55,456
Arbitrage payable	-	2,410	-	-	-
Interfund notes payable	-	-	-	-	2,630,256
Unearned revenues	276,213	355,000	117,653	108,210	-
Board advances	-	-	-	-	-
Net pension liability	2,007,593	1,243,768	2,158,297	590,189	515,389
Total other noncurrent liabilities	20,676,420	103,549,462	2,435,239	760,393	10,351,101
Total liabilities	25,681,169	113,399,555	3,625,312	1,239,727	11,749,729
Deferred inflows of resources-refunding	305,345	4,423,785	-	-	-
Deferred inflows of resources-pensions	1,043	646	1,126	307	268
Total liabilities and deferred inflows of resources	25,987,557	117,823,986	3,626,438	1,240,034	11,749,997
NET POSITION					
Net investments in capital assets	63,744,660	48,658,161	11,794,430	54,460,136	65,806,486
Restricted for:					
Capital projects	13,241,612	17,322,355	8,980,401	1,964,139	6,742,237
Debt service	461,950	4,547,972	-	-	307,614
Distribution of net surplus revenues	-	-	-	-	-
Unrestricted	4,519,822	11,804,172	9,586,595	817,349	5,622,807
Total net position	81,968,044	82,332,660	30,361,426	57,241,624	78,479,144
Total liabilities, deferred inflows of resources, and net position	\$ 107,955,601	\$ 200,156,646	\$ 33,987,864	\$ 58,481,658	\$ 90,229,141

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

Business-type Activities-Enterprise Funds					Governmental Activities
McAllen International Toll Bridge	Anzalduas International Crossing	Performing Arts Center	Other Proprietary Funds	Total	Internal Service Funds
\$ 215,366	\$ 31,251	\$ 25,165	\$ 375,310	\$ 4,603,152	\$ 691,571
19,570	100,099	-	56,549	3,891,041	1,839,052
16,822	-	-	-	16,822	517,893
861,148	-	-	-	861,148	-
-	-	72,125	-	2,657,486	-
103,787	-	-	23,618	1,162,648	38,953
-	1,470,000	-	-	7,432,000	-
184,567	-	-	-	542,667	-
-	-	-	5	311,295	-
<u>1,401,260</u>	<u>1,601,350</u>	<u>97,290</u>	<u>455,482</u>	<u>21,478,259</u>	<u>3,087,469</u>
-	29,732,924	-	-	156,863,984	-
4,145	16,764	-	161,506	818,992	21,240
-	-	-	-	2,410	-
326,647	-	-	-	2,956,903	-
135,528	5,000	-	100,512	1,098,116	-
-	17,633,893	-	-	17,633,893	-
<u>402,425</u>	<u>142,720</u>	<u>-</u>	<u>852,639</u>	<u>7,913,020</u>	<u>310,298</u>
<u>868,745</u>	<u>47,531,301</u>	<u>-</u>	<u>1,114,657</u>	<u>187,287,318</u>	<u>331,538</u>
<u>2,270,005</u>	<u>49,132,651</u>	<u>97,290</u>	<u>1,570,139</u>	<u>208,765,577</u>	<u>3,419,007</u>
-	356,271	-	-	5,085,401	-
209	74	-	441	4,114	162
<u>2,270,214</u>	<u>49,488,996</u>	<u>97,290</u>	<u>1,570,580</u>	<u>213,855,092</u>	<u>3,419,169</u>
11,601,846	11,623,863	52,005,783	12,847,134	332,542,499	13,661,779
1,865,256	554,587	251,087	-	50,921,674	-
509,649	1,175,148	-	-	7,002,333	-
5,711,863	-	-	-	5,711,863	-
<u>18,073,330</u>	<u>(15,925,140)</u>	<u>1,051,881</u>	<u>2,504,130</u>	<u>38,054,946</u>	<u>22,264,445</u>
<u>37,761,944</u>	<u>(2,571,542)</u>	<u>53,308,751</u>	<u>15,351,264</u>	<u>434,233,315</u>	<u>35,926,224</u>
<u>\$ 40,032,158</u>	<u>\$ 46,917,454</u>	<u>\$ 53,406,041</u>	<u>\$ 16,921,844</u>	<u>\$ 648,088,407</u>	<u>\$ 39,345,393</u>

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CITY OF MCALLEN, TEXAS
Reconciliation of the Statement of Net Position of the Proprietary Funds
to the Government-Wide Statement of Net Position
September 30, 2017

Fund equity - total proprietary funds (page 39) \$ 434,233,315

Some amounts reported for business-type activities in the statement of net position are different because certain internal service fund assets and liabilities are included with business-type activities. 2,039,467

Net position of business-type activities \$ 436,272,782

CITY OF McALLEN, TEXAS
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Year Ended September 30, 2017

	Business Type Activities-Enterprise Funds				
	Water	Sewer	Sanitation	Convention Center	McAllen International Airport
Operating revenues					
Charges for services	\$ 19,054,312	\$ 17,033,802	\$ 19,133,391	\$ 1,261,878	\$ 2,648,482
Rentals	-	-	-	1,067,801	3,589,714
Other	812,802	670,794	97,081	256,323	136,405
Total operating revenues	<u>19,867,114</u>	<u>17,704,596</u>	<u>19,230,472</u>	<u>2,586,002</u>	<u>6,374,601</u>
Operating expenses					
Salaries, wages and employee benefits	7,038,706	4,279,807	7,313,499	2,176,419	1,722,456
Supplies	1,322,112	685,315	380,972	67,719	71,347
Contractual and other services	5,213,696	3,078,302	4,953,506	2,225,856	1,797,380
Repairs and maintenance	633,334	530,654	2,891,330	332,798	431,690
Depreciation and amortization	4,645,422	5,975,189	2,427,312	1,608,267	4,701,434
Self insurance claims	-	-	-	-	-
Total operating expenses	<u>18,853,270</u>	<u>14,549,267</u>	<u>17,966,619</u>	<u>6,411,059</u>	<u>8,724,307</u>
Operating income (loss)	<u>1,013,844</u>	<u>3,155,329</u>	<u>1,263,853</u>	<u>(3,825,057)</u>	<u>(2,349,706)</u>
Non operating revenues (expenses)					
Intergovernmental	-	-	1,073	-	-
Investment earnings	197,260	342,721	170,005	37,887	155,381
Net increase (decrease) in fair value of investments	(83,873)	(63,788)	(67,321)	(11,069)	(63,044)
Interest expense	(772,405)	(416,452)	-	-	(413,550)
Interest on board advances	-	-	-	-	-
Bond related charges--issuance cost	113,412	491,002	-	-	-
Gain (loss) on sale of capital assets	13,180	32,103	78,070	37,483	(109,621)
Other	8,846	-	-	-	10,647
Net non-operating revenues (expenses)	<u>(523,580)</u>	<u>385,586</u>	<u>181,827</u>	<u>64,301</u>	<u>(420,187)</u>
Income (loss) before contributions and transfers	490,264	3,540,915	1,445,680	(3,760,756)	(2,769,893)
Capital contributions	1,229,691	2,117,572	-	-	2,392,868
Transfers in	-	-	-	1,890,899	-
Transfers out	(42,839)	(24,390)	(41,276)	(700,787)	(1,114,597)
Change in net position	1,677,116	5,634,097	1,404,404	(2,570,644)	(1,491,622)
Total net position--beginning	<u>80,290,928</u>	<u>76,698,563</u>	<u>28,957,022</u>	<u>59,812,268</u>	<u>79,970,766</u>
Total net position--ending	<u>\$ 81,968,044</u>	<u>\$ 82,332,660</u>	<u>\$ 30,361,426</u>	<u>\$ 57,241,624</u>	<u>\$ 78,479,144</u>

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

Business Type Activites-Enterprise Funds					Governmental Activities
McAllen International Toll Bridge	Anzalduas International Crossing	Performing Arts Center	Other Proprietary Funds	Total	Internal Service Funds
\$ 11,856,205	\$ 3,555,823	\$ 598,417	\$ 1,387,886	\$ 76,530,196	\$ 6,770,115
2,587,122	18,555	391,205	333,052	7,987,449	-
284,973	126,288	5,659	411,894	2,802,219	14,049,676
14,728,300	3,700,666	995,281	2,132,832	87,319,864	20,819,791
1,571,723	493,465	-	3,105,610	27,701,685	1,705,395
92,249	14,750	30,755	164,760	2,829,979	32,780
925,711	317,342	789,434	1,023,637	20,324,864	6,461,330
174,313	48,161	51,158	824,677	5,918,115	48,438
986,388	1,533,466	766,785	1,790,492	24,434,755	2,218,816
-	-	-	-	-	12,701,333
3,750,384	2,407,184	1,638,132	6,909,176	81,209,398	23,168,092
10,977,916	1,293,482	(642,851)	(4,776,344)	6,110,466	(2,348,301)
-	-	-	-	1,073	16,265
53,791	30,426	5,639	31,905	1,025,015	386,853
-	(1,201)	-	(5,080)	(295,376)	(60,835)
(27,335)	(1,537,019)	-	-	(3,166,761)	-
631,458	(631,458)	-	-	-	-
-	(594,890)	-	-	9,524	-
-	-	-	(7,514)	43,701	-
(3,727,282)	8,653	-	-	(3,699,136)	1,660,224
(3,069,368)	(2,725,489)	5,639	19,311	(6,081,960)	2,002,507
7,908,548	(1,432,007)	(637,212)	(4,757,033)	28,506	(345,794)
86,424	-	52,082,413	2,422,922	60,331,890	-
-	914,417	1,771,750	1,012,830	5,589,896	2,322,311
(6,623,332)	(2,502)	-	(708,616)	(9,258,339)	(1,506,567)
1,371,640	(520,092)	53,216,951	(2,029,897)	56,691,953	469,950
36,390,304	(2,051,450)	91,800	17,381,161	377,541,362	35,456,274
\$ 37,761,944	\$ (2,571,542)	\$ 53,308,751	\$ 15,351,264	\$ 434,233,315	\$ 35,926,224

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CITY OF MCALLEN, TEXAS
Reconciliation of the Statement Revenues, Expenses and Changes in Fund Net Position of the Proprietary Funds
to the Government-Wide Statement of Activities
For The Year Ended September 30, 2017

Change in net position - total proprietary funds (page 43)	\$	56,691,953
Some amounts reported for business-type activities in the statement of activity are different because the net revenue (expense) of certain internal service funds is reported with business-type activities.		<u>(607,101)</u>
Change in net position of business-type activities	\$	<u><u>56,084,852</u></u>

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

	Business Type Activities-Enterprise Funds			
	Water	Sewer	Sanitation	McAllen Convention Center
Cash flows from operating activities:				
Receipts from customers	\$ 19,800,743	\$ 17,631,920	\$ 19,241,577	\$ 2,480,430
Payments to employees	(6,674,335)	(4,028,871)	(6,971,894)	(2,085,944)
Payments to suppliers	(7,328,120)	(6,207,905)	(9,516,147)	(2,664,097)
Net cash provided (used) by operating activities	<u>5,798,288</u>	<u>7,395,144</u>	<u>2,753,536</u>	<u>(2,269,611)</u>
Cash flows from noncapital financing activities:				
Transfers from other funds	-	-	-	1,944,070
Transfers to other funds	(42,839)	(24,390)	(41,276)	(10,632)
Subsidy from federal grant	-	-	291	-
Other revenue received	8,846	-	-	-
Distribution of income to City of Hidalgo	-	-	-	-
Net cash provided (used) by noncapital financing activities	<u>(33,993)</u>	<u>(24,390)</u>	<u>(40,985)</u>	<u>1,933,438</u>
Cash flows from capital and related financing activities:				
Capital contributions	113,458	1,920,487	-	-
Purchases of capital assets	(2,399,820)	(24,996,707)	(2,228,792)	(101,356)
Proceeds from sale of capital assets	13,180	37,845	78,070	55,599
Proceeds from bond issuance	-	6,980,854	-	-
Bond issuance cost	-	(83,199)	-	-
Principal repayments-bonds and notes	(1,316,800)	(4,049,200)	-	-
Interest paid	(811,570)	(1,475,163)	-	-
Net cash provided (used) by capital and related financing activities	<u>(4,401,552)</u>	<u>(21,665,083)</u>	<u>(2,150,722)</u>	<u>(45,757)</u>
Cash flows from investing activities:				
Collection of interfund loan principal and interest	-	2,269	-	-
Proceeds from sales and maturities of investments	21,650,498	64,692,404	19,224,652	5,840,053
Purchase of investments	(22,930,268)	(50,045,375)	(20,142,143)	(5,473,723)
Receipt of interest	98,565	283,632	103,376	28,896
Net cash provided (used) by investing activities	<u>(1,181,205)</u>	<u>14,932,930</u>	<u>(814,115)</u>	<u>395,226</u>
Net increase (decrease) in cash	181,538	638,601	(252,286)	13,296
Cash at beginning of year	<u>417,374</u>	<u>727,350</u>	<u>542,348</u>	<u>75,549</u>
Cash at end of year	<u>\$ 598,912</u>	<u>\$ 1,365,951</u>	<u>\$ 290,062</u>	<u>\$ 88,845</u>

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

Business Type Activities-Enterprise Funds						Governmental Activities
McAllen International Airport	McAllen International Toll Bridge	Anzalduas International Crossing	Performing Arts Center	Other Proprietary Funds	Total	Internal Service Funds
\$ 6,375,932	\$ 14,652,569	\$ 3,700,666	\$ 1,067,406	\$ 2,105,782	\$ 87,057,025	\$ 20,387,187
(1,626,209)	(1,492,401)	(465,849)	-	(2,942,548)	(26,288,051)	(1,656,757)
(3,274,233)	(934,794)	(626,240)	(846,182)	(1,776,782)	(33,174,500)	(19,413,884)
1,475,490	12,225,374	2,608,577	221,224	(2,613,548)	27,594,474	(683,454)
-	-	914,417	1,051,568	1,012,830	4,922,885	3,182,347
(1,114,597)	(6,623,332)	(2,502)	-	(708,616)	(8,568,184)	(1,506,567)
-	-	-	-	463,681	463,972	12,309
10,647	-	-	-	-	19,493	498,921
-	(3,801,735)	-	-	-	(3,801,735)	-
(1,103,950)	(10,425,067)	911,915	1,051,568	767,895	(6,963,569)	2,187,010
2,457,639	86,424	-	-	1,173,606	5,751,614	-
(1,712,743)	(1,656,639)	(52,169)	-	(591,639)	(33,739,865)	(1,094,505)
-	-	-	-	4,665	189,359	1,459,355
-	-	-	-	-	6,980,854	-
-	-	(103,831)	-	-	(187,030)	-
(405,000)	(176,460)	(1,360,000)	-	-	(7,307,460)	-
(414,562)	(27,335)	(1,410,346)	-	-	(4,138,976)	-
(74,666)	(1,774,010)	(2,926,346)	-	586,632	(32,451,504)	364,850
-	-	-	-	-	2,269	-
12,122,356	16,161,214	5,275,504	417,380	5,009,731	150,393,792	26,578,680
(11,776,396)	(16,330,490)	(5,935,064)	(1,668,019)	(3,815,342)	(138,116,820)	(29,204,070)
90,582	53,259	28,744	5,639	25,690	718,383	317,412
436,542	(116,017)	(630,816)	(1,245,000)	1,220,079	12,997,624	(2,307,978)
733,416	(89,720)	(36,670)	27,792	(38,942)	1,177,025	(439,572)
87,375	421,957	232,917	67,364	203,587	2,775,821	1,127,481
\$ 820,791	\$ 332,237	\$ 196,247	\$ 95,156	\$ 164,645	\$ 3,952,846	\$ 687,909

Continued

CITY OF McALLEN, TEXAS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS-(Continued)
For the Year Ended September 30, 2017

	Business Type Activities-Enterprise Funds			
	Water	Sewer	Sanitation	McAllen Convention Center
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 1,013,844	\$ 3,155,329	\$ 1,263,853	\$ (3,825,057)
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	4,645,422	5,975,189	2,427,312	1,608,267
(Increase) decrease in deferred outflows of resources - pension	265,214	167,185	265,115	77,236
Increase (decrease) in deferred inflows of resources-pensions	1,043	646	1,126	307
(Increase) decrease in accounts receivable	(106,286)	(12,676)	16,689	8,099
(Increase) decrease in due from other funds	-	-	-	-
(Increase) decrease in prepaid items	(5,192)	(5,587)	993	4,083
(Increase) decrease in inventories	(102,370)	-	-	-
Increase (decrease) in accounts payable	(44,855)	(2,999,608)	(806,233)	(41,807)
Increase (decrease) in customer deposits payable	(1,406)	-	-	(95,062)
Increase (decrease) in compensated absences payable	24,078	35,075	(2,883)	(3,168)
Increase (decrease) in accrued liabilities	(2,046)	1,096,558	19,048	(4,347)
Increase (decrease) in due to other funds	-	-	(500,903)	-
Increase (decrease) in net pension liability	69,521	43,033	75,003	20,447
Increase (decrease) in unearned revenue	41,321	(60,000)	(5,584)	(18,609)
Total adjustments	4,784,444	4,239,815	1,489,683	1,555,446
Net cash provided by (used) by operating activities	\$ 5,798,288	\$ 7,395,144	\$ 2,753,536	\$ (2,269,611)
Noncash investing, capital and financing activities:				
Contributions of capital assets	1,116,233	197,085	-	-
Increase (decrease) in fair value of investments	(83,873)	(63,788)	(67,321)	(11,069)

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

Business Type Activities-Enterprise Funds						Governmental Activities
McAllen International Airport	McAllen International Toll Bridge	Anzalduas International Crossing	Performing Arts Center	Other Proprietary Funds	Total	Internal Service Funds
\$ (2,349,706)	\$ 10,977,916	\$ 1,293,482	\$ (642,851)	\$ (4,776,344)	\$ 6,110,466	\$ (2,348,301)
4,701,434	986,388	1,533,466	766,785	1,790,492	24,434,755	2,218,816
68,271	52,724	20,085	-	124,440	1,040,270	38,272
268	209	74	-	441	4,114	162
176	(85,920)	-	-	(8,364)	(188,282)	17,588
-	157,359	-	-	-	157,359	(450,192)
(359)	-	-	-	-	(6,062)	(761,384)
-	-	-	-	-	(102,370)	268,533
(312,246)	106,838	(88,628)	25,165	229,749	(3,931,625)	(103,315)
1,155	-	-	72,125	-	(23,188)	-
8,867	8,801	1,280	-	1,613	73,663	2,419
36,314	(3,354)	1,251	-	22,934	1,166,358	43,308
(696,529)	282	(157,359)	-	(9,193)	(1,363,702)	379,859
17,845	13,942	4,926	-	29,370	274,087	10,781
-	10,189	-	-	(18,686)	(51,369)	-
<u>3,825,196</u>	<u>1,247,458</u>	<u>1,315,095</u>	<u>864,075</u>	<u>2,162,796</u>	<u>21,484,008</u>	<u>1,664,847</u>
<u>\$ 1,475,490</u>	<u>\$ 12,225,374</u>	<u>\$ 2,608,577</u>	<u>\$ 221,224</u>	<u>\$ (2,613,548)</u>	<u>\$ 27,594,474</u>	<u>\$ (683,454)</u>
-	-	-	52,772,568	234,731	54,320,617	-
(63,044)	-	(1,201)	-	(5,080)	(295,376)	(60,835)

Concluded

CITY OF McALLEN , TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
September 30, 2017

	Pension Trust	
	Firemen's Relief and Retirement Fund	Agencies
ASSETS		
Cash and cash equivalents	\$ 1,789,674	\$ 309,009
Receivables:		
Interest	15,469	8,979
Other	-	7,368
Investments, at fair value:		
TexPool Prime	-	3,698,213
Domestic and international equities	28,771,737	-
Treasury, corporate bonds, & mutual funds	10,612,518	2,937,669
Alternative investments	8,272,990	-
Total investments	47,657,245	6,635,882
Total assets	49,462,388	6,961,238
LIABILITIES		
Accounts payable	3,078	237,267
Due agency	-	2,943,424
Escrow payables	-	3,780,547
Total liabilities	3,078	\$ 6,961,238
NET POSITION		
Net position restricted for pension	\$ 49,459,310	

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

CITY OF McALLEN , TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended September 30, 2017

	Pension Trust
	Firemen's Relief and Retirement Fund
ADDITIONS	
Contributions:	
Member	\$ 1,266,210
Employer	1,496,044
Other	2,150
Total contributions	2,764,404
Investment earnings:	
Interest and dividends	1,016,954
Gain on sale of investments	39,242
Net appreciation (depreciation) in fair value of investments	4,729,605
Total investment earnings	5,785,801
Less: investment expense	295,831
Net investment earnings	5,489,970
Total additions	8,254,374
DEDUCTIONS	
Benefits	3,205,562
Refund of contributions	32,196
DROP payments	282,539
Administrative expense	33,822
Total deductions	3,554,119
Changes in net assets	4,700,255
Net position--beginning	44,759,055
Net position--ending	\$ 49,459,310

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

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CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

I. Summary of significant accounting policies

(A) Reporting entity

The City of McAllen, Texas (the City) is a municipal corporation, which was incorporated February 20, 1911 under Article XI, Section 5 of the Texas Constitution. The City operates under the commission-manager form of government and provides a full range of municipal services as authorized by its charter. The governing body consists of an elected mayor and a six-member commission. Services provided include those typically provided by general-purpose local governments, namely public safety (principally police and fire), highways and streets, health and welfare, culture and recreation (principally library, parks and recreation). Other services provided include water and sewer utilities, sanitation, civic center, convention center, international airport, international toll bridge linking Hidalgo, Texas with downtown Reynosa, Tamaulipas, Mexico, international toll bridge linking south of the City of Mission with the west side of Reynosa, Tamaulipas, Mexico, golf course, bus transit system, and intermodal transit terminal.

The accompanying financial statements present the reporting entity, which consists of the primary government. Financial reporting standards also require the City to include, if any, legally-separate entities or organizations for which the primary government is financially accountable and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion could cause the City's basic financial statements to be misleading or incomplete.

Financial accountability exists if a primary government appoints a voting majority of an organization's governing Board and either is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations with a separately elected governing Board, a governing Board appointed by another government, or a jointly appointed Board that is fiscally dependent on the primary government.

Applying these tests to other entities and activities for possible inclusion in the reporting entity, the City has determined that the Development Corporation and the Local Government Finance Corporation meets the financial accountability tests and, therefore is included as blended component units. Specifically, management of the primary government has operational responsibility for the Development Corporation and the Local Government Finance Corporation. Its Boards are appointed by the City Commission and serve as an advisory board to the City Commission.

The City of McAllen issues separate publicly available audited financial statements of the McAllen International Toll Bridge and the Anzalduas International Crossing, enterprise funds of the City, which may be obtained by writing to City of McAllen Finance Department, 1300 Houston, P.O. Box 220, McAllen, Texas 78505.

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

The Firemen's Relief and Retirement Fund is included as a pension trust fund, and reported as a fiduciary fund in the accompanying financial statements. These financials are audited and issued separately.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) applicable to states and local governments. US GAAP for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB"), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governments.

Governmental Accounting Standards Board has issued the following pronouncements, which are relevant to the City, and became effective this fiscal year and have been implemented:

GASB Statement No. 77, *Tax Abatement Disclosures*. This statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. For financial reporting purposes, a tax abatement is defined as, a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015, which are located under Note H.

GASB Statement No. 80, *Blending Requirements for Certain Component Units*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not for profit corporation in which the primary government is the sole corporate member. There is no impact on the financial statements for the City due to the adoption of GASB Statement No. 80.

GASB Statement No 82, *Pension Issues – An Amendment of GASB statements 67, 68, and 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contributions requirements. There is no impact on the financial statements for the City due to the adoption of GASB Statement No. 82.

The GASB has issued the following statements, which will become effective for the City in future years.

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

This statement changes the focus of accounting of postemployment benefits other than pensions from whether they are responsibly funding the benefits over time to a point-in-time liability that is reflected on the employer's financial statements for any actuarially unfunded portion of benefits earned to date. This statement will become effective for the City in fiscal year 2018. The City has not determined the impact of the implementation of this standard.

GASB Statement No. 83, Certain Asset Retirement Obligations.

This objective of this statement is to provide financial statement users with information about asset retirement obligations (AROs) that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. The requirements of this Statement apply to financial statements of all state and local governments. This Statement will become effective for the City in fiscal year 2018. The City has not determined the impact of the implementation of this standard.

GASB Statement No. 84, Fiduciary Activities

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This statement will become effective for the City in fiscal year 2019. The City has not determined the impact of the implementation of this standard.

GASB Statement No. 87, Leases

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will become effective for the

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

City in fiscal year 2020. The City has not determined the impact of the implementation of this standard.

The more significant accounting policies of the City are described on the following pages.

(B) Government-wide and fund financial statements

Government-wide Financial Statements

The government-wide financial statements consist of the statement of net position and the statement of activities, which is a statement of results of operations. These statements report information on all the activities of the reporting entity with the exception of fiduciary activity. Generally, the effect of inter-fund activity has been eliminated from these statements. *Governmental activities*, normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which primarily rely on fees and charges.

The statement of activities reflects the extent to which direct expenses of each function are offset by program revenues. *Direct expenses* are those that are attributable to a specific function and are clearly identifiable. *Program revenues* include charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a specific function as well as grants and contributions that are restricted to meeting the operational or capital requirements of a specific function. Taxes and other items not appropriately included with program revenues are shown as *general revenues*.

Fund Financial Statements

In addition to and apart from the government-wide financial statements, fund financial statements are presented for governmental funds, proprietary funds and fiduciary funds. In each of these financial statements, major funds are presented in separate columns.

(C) Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*; consistent with the presentation of the proprietary fund and fiduciary fund financial statements, with the exception that agency funds do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, without regard to the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 30 days of the end of the current fiscal period, except for property taxes, which is 60 days required by GAAP. Expenditures generally are recorded when a liability is incurred, consistent with accrual accounting. However, debt service expenditures, as well as those related to compensated absences and claims and judgments are recognized only when payment is made.

Revenues derived from federal or state grants are recognized when earned at the end of the current fiscal year and are reflected as due from other governments. Because of their nature, the availability period has a longer duration of six months to a year.

Property taxes, sales taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental fund types, as well as related non-major governmental funds:

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

The *Special Revenue Funds* are used to account for and report the proceeds of specific revenue sources, other than for debt service or major capital projects that are legally restricted or committed to expenditure for specified purposes. The only special revenue fund reported as a major fund is the *Development Corp. Fund*, a blended component unit. It is used to account for the additional ½¢ sales tax for economic development.

The *Capital Projects Funds* are used to account for and report financial resources that are restricted, committed or assigned for the acquisition and/or construction of capital facilities except those financed by proprietary fund types. The *Capital Improvement Fund* is the only fund of this type that is reported as a major fund.

The governing body has adopted the policy that the Development Corp. Fund and the Capital Improvement Fund are to be considered major funds, without regard to the major fund criteria, due to them being particularly important to the users of these financial statements.

The City reports the following major *proprietary fund types* and related funds:

The following *enterprise funds* are used to account for City operations for which a fee is charged to external users for goods or services. These funds must be used for activities,

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

whose debt is backed solely by fees and charges or there is a legal requirement to recover cost, including capital cost, or a policy decision has been made to recover cost, including capital cost. Enterprise funds, which are reported as major funds include:

The *Water Fund*, which accounts for the activities of the City's water system.

The *Sewer Fund*, which accounts for the activities of the City's sewer system.

The *Sanitation Fund*, which accounts for the activities of the City-owned residential and commercial garbage and brush collection as well as recycling systems.

The *Convention Center Fund*, which accounts for the activities of the City's convention center.

The *Performing Arts Center Fund*, which accounts for the activities of the City's performing arts center.

The *McAllen International Airport Fund*, which accounts for the activities of the City-owned international airport.

The *McAllen International Toll Bridge Fund*, which accounts for the operations of the City-owned international bridge connecting the City of Hidalgo, Texas with downtown Reynosa, Mexico.

The *Anzalduas International Crossing Fund*, which accounts for the operations of the international bridge connecting south of the City of Mission, Texas with the west side of Reynosa, Mexico.

The City also reports, although not as major funds, the *internal service funds as proprietary funds*. These fund types were established to finance and account for goods and services provided to various departments of the City, and on a limited basis to other local agencies, on a cost-reimbursement basis. They account for fleet management, health insurance, retiree health insurance, property and casualty, and general insurance services provided to other operating funds of the City, as well as a general depreciation fund for rolling stock used within departments of the General Fund. In the statement of net position, only fleet management is reported in the business-type column, because the predominant user is determined to be the Sanitation Fund, a proprietary fund.

The City reports *fiduciary fund types*, in which the City accounts for assets received and held by the City in the capacity of trustee, agent or custodian. Expenditures are made only in accordance with the purpose for which the assets are received and cannot be used to support the City's programs. Within this category of fund types, the *pension trust fund* accounts for the activities of the *Firemen's Relief and Retirement Fund*, this accumulates resources for pension benefit

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

payments to qualified firefighters. It also accounts for developers' contributions for future infrastructure development in the *Developers' Fund*, an agency fund. Additionally, it accounts for the *Communications Group Fund*, an agency fund, which was established for the purpose of accounting for the operations and maintenance of a consolidated regional public safety services communication system. The City also includes the *Payroll Fund* as an agency fund.

Generally, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general statement are charges between the City's water and sewer function and various other functions of the City. Eliminating these charges would distort the direct costs and program revenues reported by the respective functions.

Amounts reported in *program revenues* include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues*, which include all taxes, as opposed to program revenues.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses typically are the result from activities specific to a particular proprietary fund's operations. Operating revenues include charges for services. Operating expenses include costs of services as well as materials, contracts, personnel and depreciation. All other revenues and expenses are reported as non-operating revenues and expenses.

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the City typically first applies restricted resources, as appropriate opportunities arise, but reserves the right to selectively defer the use thereof to a future project or replacement equipment acquisition.

(D) Assets, liabilities, and net position

(1) Authorized Investments

Assets of the City may be invested only in the following instruments in accordance with the City's Investment Policy and further defined by the Public Funds Investment Act for the state of Texas.

- Obligations of the U.S. Government, its agencies and instrumentalities, including pass-through mortgage-backed securities and collateralized mortgage obligations (CMO).
- FDIC insured or collateralized depository certificates of deposit of state and national banks doing business in Texas to include CDARS initiated through a Texas bank.
- Local government investment pools.

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

- AAA-rated, SEC registered money market mutual funds.
- No-load bond mutual fund.
- FDIC insured or collateralized interest bearing and money market accounts from any FDIC insured bank in Texas to include depository spread money market funds initiated in a Texas bank.
- Debt obligations of any state or political subdivision in any US state.
- Fully collateralized repurchase agreements.
- A1/P1 commercial paper
- FDIC insured brokered certificate of deposit securities from U.S. banks

The City's investment policy further restricts investments to the following:

- Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security and pays no principal.
- Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
- Collateralized mortgage obligations that have a stated final maturity date of greater than ten (10) years.
- Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

The City's investments are reported at fair value based on quoted market prices or amortized cost, which approximates fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

(2) Receivables and payables

Lending/borrowing between funds that results in amounts outstanding at the end of the fiscal year are referred to as either "due to/from other funds" or "advances to/from other funds." "Due to/from other funds" represents the current portion of interfund loans. The noncurrent portion of interfund loans is reflected as interfund loans on the fund financial statements. With respect

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

to the government-wide financial statements, any residual balances outstanding between the governmental activities and business-type activities are reported as “internal balances.”

Advance receivables between funds, reported in the fund financial statements, are offset by a category of fund balance in the applicable governmental fund(s) to indicate that they are not available for appropriation and are not expendable available financial resources. All trade receivables are shown net of an allowance for uncollectible.

Property taxes are levied on October 1 based on the assessed value of property as listed on the previous January 1, on which date a tax lien attaches. Assessed values are an approximation of market value. A valuation of all property must be made at least every three (3) years. However, due to growth, the appraisal district conducts annual valuation by property category. Property taxes at the fund level are recorded as receivables and unearned revenues at the time the taxes are levied. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and, therefore, susceptible to accrual in accordance with GAAP have been recognized as revenue. Taxes are due on October 1, the levy date, and are delinquent after the following January 31. Tax liens are automatic on January 1 each year. The tax lien is part of a lawsuit for property that can be filed any time after taxes become delinquent (February 1). The City usually waits until after May 1 and July 1 to file suits on business, personal property and real property, respectively.

(3) Inventories and prepaid items

Inventories for all governmental funds are valued at the lower of cost or market on the first-in, first-out basis. The consumption method is used to account for inventories. Under the consumption method, all inventory purchases are recorded as inventory acquisitions (current assets) at the time of purchase and expended when used.

Inventories of proprietary funds are valued at the lower of cost or market on the first-in, first-out basis as well.

Payments to vendors, reflecting costs applicable to future accounting periods, are recorded as prepaid items in both government-wide and fund financial statements.

(4) Restricted assets

Proceeds from the issuance of bonds, primarily related to enterprise funds and sales tax revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position due to their use being limited by applicable bond covenants. The “revenue bond current debt service” account is used to report segregated assets accumulated for debt service payments over the next twelve months. The “revenue bond contingency”

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

account is used to report resources set aside to subsidize potential deficiencies from the McAllen International Toll Bridge Fund and/or the Anzalduas International Crossing Fund operations that could adversely affect debt service payments. In addition to assets restricted by bond covenants, others are restricted by enabling legislation for replacement and/or acquisition of capital assets.

(5) Capital assets

Capital assets, which includes property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$2,500 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend the assets life are not capitalized.

Gains or losses on dispositions of capital assets are included in income within the proprietary fund financial statements and in the governmental activities and business-type activities columns of the government-wide financial statements. In the governmental fund financial statements only the proceeds from the disposition are reported. Within the proprietary funds, interest cost, less interest earned on investments acquired with proceeds of related borrowing, is capitalized during the construction of capital projects when material. The Sewer Fund has incurred \$1M of capitalized interest. Interest expense is not capitalized on general capital assets.

Depreciation of capital assets used by proprietary funds, including those acquired by contributed capital, is charged as an expense against their operations in the fund financial statements as well as the government-wide financial statements. Depreciation of general capital assets used by funds categorized as governmental activities is not provided in the fund financial statements, however is included in the gross expense by function in the government-wide Statement of Activities. Capital assets, accumulated depreciation as well as the net amount are reported on proprietary fund statement of net position and in both the governmental activities and business-type activities column of the government-wide statement of net position. Depreciation has been provided over the estimated useful lives using the straight-line method.

The estimated useful lives are as follows:

Buildings and improvements	10 – 50 years
Equipment	5 – 15 years
Infrastructure	15 – 40 years

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

(6) Compensated absences

Accumulated unpaid compensated absences are accrued when incurred in all funds reported within the proprietary fund financial statements as well as the governmental activities and business-type activities columns of the government-wide statements. The expense is recognized in the governmental fund financial statements when paid or expected to be paid with current financial resources.

(7) Long-term obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

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

(8) Fund balances

Fund balance, reported in governmental funds, which has some level of constraint placed on it, is classified as non-spendable, restricted, committed, or assigned. The amount remaining, which can be spent for any lawful purpose is classified as unassigned. Amounts classified as restricted have constraints placed on the use by law, regulations of other governments, creditors, grantors or by enabling legislation. Those classified as committed are constrained by the City Commission through an ordinance for specific purposes. Reversing a commitment would require City Commission approval through an ordinance. Non-spendable amounts cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The City Commission has delegated the authority to make assignments to the City Manager with Commission direction. For the purposes of classifying governmental fund balances, the City typically considers expenditure to be made from the most restrictive first when more than one classification is available, however reserves the right to selectively defer the use thereof to future expenditure. During the budget process, the City Manager designates the assignment of fund balances and makes recommendations to the City Commission for their consent and approval.

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The following outlines the composition of the City’s governmental fund balances classifications.

	Major Funds			Non-major	
	General	Development Corp.	Capital Improvements	Funds Other	Total
Fund balances:					
Nonspendable:					
Board advances	\$ 2,920,130	\$ -	\$ -	\$ -	\$ 2,920,130
Prepays	69,048	53,659	-	-	122,707
Restricted for:					
Law enforcement	-	-	-	3,428,027	3,428,027
Debt service	-	-	-	2,370,907	2,370,907
Economic development	-	13,710,952	-	206,878	13,917,830
Tourism	-	-	-	73,178	73,178
Capital improvements	-	-	-	30,096,053	30,096,053
Public education governmental	-	-	-	866,956	866,956
Parks	-	-	-	1,961,439	1,961,439
Committed to:					
Downtown services parking	-	-	-	290,623	290,623
Assigned to:					
Information technology projects	-	-	-	195,657	195,657
Radio communication system	457,022	-	-	-	457,022
Other capital projects	-	-	5,216,423	-	5,216,423
Unassigned	42,941,348	-	-	-	42,941,348
Total fund balances	\$ 46,387,548	\$ 13,764,611	\$ 5,216,423	\$ 39,489,718	\$ 104,858,300

The amount of fund balance restricted by enabling legislation totaled \$16,873,062, as of September 30, 2017.

(9) Minimum fund balance policy

In order to maintain a margin of safety in the General Fund balance in anticipation of economic downturns or natural disasters, the City Commission has adopted an ordinance, requiring a minimum fund balance of 140 days of expenditures.

(10) Deficit Net Position/Fund Balance

The Anzalduas Bridge Fund’s net position reflects a deficit in the amount of \$2,571,542 primarily as a result of advances from the Hidalgo Bridge, as authorized by the board of trustees. These advances supported the annual debt service requirements and interest on the advances. The Hidalgo Bridge Board of trustees has no intention of calling these advances,

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which will be repaid once the resources are available. In addition, the Employee Benefits Fund reflects a deficit net position in the amount of \$1,240,915. It is estimated that this shortfall will be covered by a health insurance premium rate increase, plan design changes to reduce expenses, and negotiations with several vendors to ensure lower fees. The Property & Casualty Insurance Fund reflects a deficit net position of \$9,180, which will be corrected by funding assistance from the General Fund in FY 2018. Two non-major governmental funds, Tax Increment Zone #1 and the Texas Anti Gang Fund, reflect a negative net position, \$2,181,607, and \$84,324, respectively. The Tax Increment Fund will reflect a negative net position for a period of time, as this new development is under construction with a projection of 5,000 single family homes, 1,000 townhomes, and 2,000 multi-family units. The Texas Anti Gang Fund's net position will receive intergovernmental funding assistance in FY 2018.

(11) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has several deferred outflows of resources classifications that qualifies for reporting in this category for business-type activities and government wide activities: deferred loss on refundings, pension contributions made after measurement date, deferred charges on actuarial losses, and differences in projected and actual earnings on pension assets. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or refunding debt. The other categories of deferred outflows of resources pertain to GASB 68.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. At the governmental fund level, revenues that have been billed but not yet collected or collected within the availability period are reported as unavailable revenues. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City has five categories that qualifies as deferred inflows of resources at the governmental fund level. The following table on the following page describes the items and amounts:

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<u>Deferred Inflows</u>	<u>Amount</u>
Property taxes	\$ 4,215,998
Weedy lots	852,387
Mission Repayment on Series B	2,920,130
Sales taxes	5,070,916
Other	<u>2,768,432</u>
Totals	<u>\$ 15,827,863</u>

On the statement of net position, the deferred inflows of resources category includes deferred inflows related to refundings, differences in investment experience/assumptions related to pensions, and differences in expected and actual pension experiences. See Note IV (D) for further information on pension related deferred inflows of resources.

II. Stewardship, compliance and accountability

(A) Budgetary information

The City adheres to the following procedures in establishing the budgetary data reflected in the basic financial statements:

1. Prior to August 1 of each year, the City Manager is required to submit to the City Commission a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted by the City Commission through passage of an ordinance.
4. The City Manager is authorized to transfer budgeted amounts between accounts within any department; however, any revisions that alter the total expenditures of any department must be approved by the City Commission. Budgeted amounts include transfers and revisions to the original appropriations ordinance.
5. Annual appropriated budgets are adopted for most governmental funds per legal requirements, while others are appropriated for management purposes.

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6. The budget and actual comparisons include the General Fund and the Development Corp Fund. Budgets for these funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (US GAAP) applicable to state and local governments. Budgets for proprietary funds have been prepared on a non-US GAAP basis, which excludes depreciation but includes capital outlay and debt principal payments.
7. Annual budgeted expenditures are adopted at the department level within funds. As previously noted, the City Manager is authorized to make transfers within a department. Accordingly, the level at which expenditures cannot legally exceed appropriations is the department level. During the year, several supplementary appropriations were necessary.

(B) Excess of expenditures over appropriations

For the year ended September 30, 2017, expenditures in certain general fund departments exceeded appropriations. These expenditures over appropriations are the result of underestimating actual expenditures for the year. Revenue sufficient to provide for the excess was made available through the use of available surplus from current and prior years. The related departments and the excess of expenditures over appropriations are reflected in the table that follows:

<u>Department:</u>	
City manager	\$ 30,841
Passport facility	6,993
Legal	21,864
City Hall	6,188
Police	183,862
Radio Shop	45,611
Fire	1,026,715
Drainage	33,401
Code compliance	12,404
Graffiti Cleaning	5,643
Humane society	2,940
Other Agencies	366,753
Recreation	69,229
Quinta mazatlan	<u>72,228</u>
Total general fund	<u>\$ 1,884,672</u>

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III. Detailed notes on all funds

(A) Deposits and investments

It is the City’s policy as well as a requirement in its Depository Agreement for deposits plus accrued interest thereon to be 110% secured by collateral valued at fair value, less the amount of the Federal Deposit Insurance Corporation insurance. At September 30, 2017, the City’s deposits were entirely covered by federal deposit insurance or were secured by collateral held by the City’s agent in the City’s name pursuant to the City’s Investment Policy and its Depository Agreement.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 are significant unobservable inputs.

The City uses quoted prices (Level 1 inputs) in active markets to measure the fair value of government treasuries and a matrix pricing model (Level 2 inputs) to measure the fair market value of its money market mutual funds and government agency security investments.

Investments at fair value, as of September 30, 2017 are reflected in the table that follows:

2017	Cost	Fair Value	Fair Value Measurements Using		
			(Level 1)	(Level 2)	(Level 3)
Investments by fair value level					
<i>Debt Securities</i>					
United States government agency securities	\$ 138,317,361	\$ 137,831,481	\$ -	\$ 137,831,481	\$ -
Money market mutual funds	19,656,946	19,656,946	-	19,656,946	-
Total debt securities	157,974,307	157,488,427	-	157,488,427	-

The total amount above excludes investments in local government pools, which are reported at amortized cost in the amount of \$66,668,764, as of September 30, 2017.

Public funds investment pools

Public funds investment pools in Texas (“Pools”) are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code and are subject to the provisions of the Act, Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: (1) have an advisory board composed of participants in the pool and other persons who do

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not have a business relationship with the pool and are qualified to advise the pool; (2) maintain a continuous rating of no lower than AAA or AAAM or an equivalent rating by at least one nationally recognized rating service; and (3) maintain the fair value of its underlying investment portfolio within one half of one percent of the values of its shares.

The City’s investments in Pools are reported at amortized cost.

TexPool is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Act. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller of Public Accounts has established an Advisory Board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. This Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rate risk.

Interest rate risk. The investment policy states that no investment shall exceed seven years in maturity. By limiting the exposure of its investments by no more than four years as reflected in the schedule below, the City reduces its risk to rising interest rates. The table below reflects the allocation of the investment portfolio.

	Government Agencies and Treasuries	Certificates of Deposit
< 1 Year	\$ 28,734,456	\$ 8,296,313
1-3 Years	109,097,025	-
4 Years	-	-
Total	\$ 137,831,481	\$ 8,296,313

Weighted		
Average Maturity	508 Days	10 Days

Credit risk. As of September 30, 2017, the investments in the State’s investment pool was rated AAAM by Standards and Poor’s. Available funds were invested in certificates of deposit, all of which are under the Federal Deposit Insurance Corporation limit. The government securities consist of instruments issued by the U.S. Treasury, Federal Home Loan Bank, Federal Home Loan Mortgage Association and Federal Farm Credit Bank, all of which are rated AAA by Moody’s Investors Service and AA+ by S&P. The City’s

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investment policy limits authorized investments to TexPool Prime, certificates of deposits, U.S. Treasuries, federal government agencies, including mortgage backed securities, commercial paper, municipal bonds, and money market mutual funds.

Concentration of credit risk. The certificate of deposits holdings at September 30, 2017 represents 3.90% of the total portfolio. The U.S. government agencies category represents 64.77% of the total portfolio. Within this category, securities issued by the Federal Home Loan Bank represent 14%, those issued by the Federal Home Loan Mortgage Corporation represent 41%, and those issued by Federal Farm Credit Bank represent 22%. Those issued by the Federal National Mortgage Association represent 13% and those issued by the Federal Agricultural Mortgage Corporation represent 9%. The investment policy is silent in the concentration of holding in the various types of securities and investments.

Firemen’s Relief and Retirement Fund Investments

The Firemen’s Relief and Retirement Fund Investments (Plan) are recorded at fair value as of September 30, 2017. The table below reflects the composition of these investments.

	<u>Fair Value</u>	<u>% of Portfolio</u>	<u>Investment Policy Asset Allocation</u>
Equities:			
Domestic	\$ 19,826,737	42%	30-60%
International	<u>8,945,000</u>	19%	10-30%
Equities total	<u>28,771,737</u>		
Fixed income			
Treasury and agency securities corporate bonds and mutual funds	<u>10,612,518</u>		
Fixed income total	<u>10,612,518</u>	22%	20-50%
Alternative investments	<u>8,272,990</u>	17%	0-20%
Total portfolio	<u>\$ 47,657,245</u>	100%	

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Investments at fair value as of September 30, 2017 using the fair value measurement are as follows:

Investment Type	Total Fair Value	Level 1	Level 2	Level 3
Equities				
Domestic Equity	\$ 9,675,992	\$ 9,675,992	\$ -	\$ -
International Equity	6,724,698	1,677,612	5,047,086	-
Mutual Fund	2,298,348	2,298,348	-	-
Fixed Income				
Fixed Income Mutual Fund	6,079,323	745,874	5,333,449	-
US Treasury Notes	1,506,876	-	1,506,876	-
Mortgage Backed Securities	398,682	-	398,682	-
Corporate Bonds	264,791	-	264,791	-
Municipal Bonds	64,498	-	64,498	-
Total Investments at Fair Value	<u>\$ 27,013,208</u>	<u>\$ 14,397,826</u>	<u>\$ 12,615,382</u>	<u>\$ -</u>

Investments measured at the net asset value (NAV)

Equity Growth Fund	10,150,745			
Emerging Markets Equity Fund	2,220,302			
		Unfunded	Redemption	Redemption
		Commitments	Frequency	Notice
Hedge Funds				
Courage Credit Opportunities Offshore Fund III LP	1,202,281	879,792	(1)	(1)
Ironwood	2,232,865	-	Semi-annual	95 days
Titan	2,260,980	-	Quarterly	65 days
Cielo	329,218	-	(1)	(1)
Terracap	2,247,646	-	(1)	(1)
Total of Investments Measured at NAV	<u>20,644,037</u>			
Total Investments	<u>\$ 47,657,245</u>			

(1) *These hedge funds are not redeemable. The Firemen's Relief and Retirement Fund receives distributions as the underlying assets of investments are sold/liquidated. Management estimates that the remaining three hedge funds (\$3,779,145 or 45.68%) will liquidate in 5-7 years.*

Because of the complexity of the portfolio, the firemen's board of trustees relies on its consultant to provide the necessary guidance to accomplish the Plan's objectives. The Board also understands that return objectives can be achieved while assuming "market" volatility. The Board is willing to forgo potential return in strong markets in return for protection against a severe decline during weak periods.

Concentration of credit risk. As noted in the previous page, none of the sectors exceed their percentage of asset allocation. The Plan is well diversified; with no one issue exceeding 5%.

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With the exception of the alternative investments, the portfolio can be liquidated within one to two days if so desired. Alternative investments can only be liquidated quarterly.

Interest rate risk. Only the fixed income securities of the Plan are subject to interest rate risk due to the possibility that prevailing interest rates could change before the securities reach maturity. Securities that are subject to interest rate risk as of September 30, 2017 amount to \$8,314,170 and have weighted-average duration of 11.67 years. Durations is defined as the change in the value of a fixed income security that will result from a 1% change in interest rates. Duration is stated in years. For example, five-year duration means the bond will decrease in value by 5% if interest rates rise 1% and increase in value by 5% if interest rates fall 1%. Securities that are subject to interest rate risk are shown in the following table. The investment policy is silent on the subject.

Investment Type	Fair Value	Percentage of Total	Weighted-Average Duration (Years)
Corporate bonds	\$ 264,791	3.18%	16.39
US Treasury notes	1,506,876	18.12%	6.60
Mutual fund bonds	6,079,323	73.12%	6.57
Government mortgage back securities	398,682	4.80%	5.34
Municipal mortgage bonds	64,498	0.78%	23.46
Total fixed income investments	\$ 8,314,170	100.00%	11.67

Credit risk. Using Standard and Poor's rating system for fixed income securities as of September 30, 2017 the Plan's bonds were rated as noted below. The investment policy is silent on the subject.

Investment Type	Fair Value	S & P Ratings		
		AA	A	Not Rated
Fixed Income Mutual Fund	\$ 6,079,323	\$ -	\$ -	\$ 6,079,323
US Treasury Notes	1,506,876	1,506,876	-	-
Mortgage Backed Securities	398,682	398,682	-	-
Corporate Bonds	264,791	47,046	166,561	51,184
Municipal Bonds	64,498	-	-	64,498
	\$ 8,314,170	\$ 1,952,604	\$ 166,561	\$ 6,195,005

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(B) Receivables

Receivables for the City’s governmental activities and business type activities at year end are reflected in the following table below:

	Receivables					
	Accounts	Taxes	Interest	Inter- governmental	Other	Net Receivables
Governmental activities:						
General	\$ 1,543,468	\$ 11,928,602	\$ 95,508	\$ 834,479	\$ 573,961	\$ 14,976,018
Development corp.	-	2,426,422	30,243	489,035	-	2,945,700
Capital Improvement	-	-	9,844	-	-	9,844
Nonmajor governmental and internal service funds	1,405,665	253,624	68,673	2,407,410	383,913	4,519,285
Total governmental	\$ 2,949,133	\$ 14,608,648	\$ 204,268	\$ 3,730,924	\$ 957,874	\$ 22,450,847
Business-type activities:						
Water	\$ 2,145,834	\$ -	\$ 14,578	\$ -	\$ -	\$ 2,160,412
Sewer	1,861,367	-	-	-	13,001	1,874,368
Sanitation	1,997,045	-	23,322	1,073	-	2,021,440
Convention center	22,011	-	5,463	-	-	27,474
Performing arts center	-	-	-	-	-	-
McAllen international airport	84,900	-	24,253	750,873	-	860,026
McAllen international toll bridge	310	-	-	175,493	-	175,803
Anzalduas international crossing	-	-	2,585	-	-	2,585
Nonmajor enterprise and fleet fund	275,407	-	1,979	883,333	-	1,160,719
Total business type	\$ 6,386,874	\$ -	\$ 72,180	\$ 1,810,772	\$ 13,001	\$ 8,282,827

Within the City’s water, sewer, and sanitation funds, an estimated amount has been recorded for services rendered but not yet billed as of the close of the year. The receivable was determined by prorating the cycle billings sent to customers in October 2017 based on the number of days applicable to the prior fiscal year. The receivable balances in the water, sewer, and sanitation have been reduced by estimated allowances for doubtful accounts. Water accounts were reduced by \$82,116; sewer accounts by \$74,020; and sanitation accounts by \$83,537.

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(C) Capital assets

Capital asset activity for the year ended September 30, 2017 was as follows:

	Beginning				Ending
	Balance	Increases	Transfers	Retirements	Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 58,197,423	\$ 24,270,538	\$ 356,983	\$ (1,954,263)	\$ 80,870,681
Construction in progress	61,875,843	14,366,301	(56,770,388)	-	19,471,756
Total capital assets, not being depreciated	<u>120,073,266</u>	<u>38,636,839</u>	<u>(56,413,405)</u>	<u>(1,954,263)</u>	<u>100,342,437</u>
Capital assets, being depreciated:					
Buildings and improvements	147,116,830	543,943	3,239,255	(86,645)	150,813,383
Equipment	88,675,730	3,428,033	(287,063)	(4,115,918)	87,700,782
Infrastructure	216,458,805	1,260,967	5,553,365	-	223,273,137
Total capital assets being depreciated	<u>452,251,365</u>	<u>5,232,943</u>	<u>8,505,557</u>	<u>(4,202,563)</u>	<u>461,787,302</u>
Less accumulated depreciation for:					
Buildings and improvements	(52,182,793)	(4,753,762)	-	86,645	(56,849,910)
Equipment	(66,185,165)	(5,375,632)	203,624	3,308,170	(68,049,003)
Infrastructure	<u>(128,139,122)</u>	<u>(6,487,398)</u>	<u>-</u>	<u>-</u>	<u>(134,626,520)</u>
Total accumulated depreciation	<u>(246,507,080)</u>	<u>(16,616,792)</u>	<u>203,624</u>	<u>3,394,815</u>	<u>(259,525,433)</u>
Total capital assets being depreciated, net	<u>205,744,285</u>	<u>(11,383,849)</u>	<u>8,709,181</u>	<u>(807,748)</u>	<u>202,261,869</u>
Governmental activities capital assets, net	<u>\$ 325,817,551</u>	<u>\$ 27,252,990</u>	<u>\$ (47,704,224)</u>	<u>\$ (2,762,011)</u>	<u>\$ 302,604,306</u>

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Depreciation expense was charged to governmental functions as follows:

General government	\$ 1,699,297
Public safety	2,443,291
Highways and streets, which includes the depreciation of general infrastructure assets	6,524,553
Health and welfare	139,815
Culture and recreation	3,657,481
In addition, depreciation on capital assets held by the City's internal service funds is charged to the various functions based on their usage of the assets	<u>2,152,355</u>
Total depreciation-governmental activities	<u>\$ 16,616,792</u>

CITY OF McALLEN, TEXAS

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	Beginning Balance	Increases	Transfers/ Retirements	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 20,660,918	\$ -	\$ 235,187	\$ 20,896,105
Construction in progress	59,641,019	27,876,537	(11,544,350)	75,973,206
Water rights (perpetual)	4,923,100	1,100,400	-	6,023,500
Goodwill	609,713	-	-	609,713
Total capital assets, not being depreciated	<u>85,834,750</u>	<u>28,976,937</u>	<u>(11,309,163)</u>	<u>103,502,524</u>
Capital assets, being depreciated:				
Buildings and systems	338,205,629	2,640,528	51,558,754	392,404,911
Improvements other than buildings	203,907,336	12,266,242	(13,239)	216,160,339
Machinery and equipment	66,141,507	2,960,771	(796,845)	68,305,433
Development cost	7,417,616	-	-	7,417,616
Water rights (non-perpetual)	3,200,000	-	-	3,200,000
Total capital assets being depreciated	<u>618,872,088</u>	<u>17,867,541</u>	<u>50,748,670</u>	<u>687,488,299</u>
Less accumulated depreciation for:				
Buildings and systems	(128,439,215)	(12,178,946)	-	(140,618,161)
Improvement other than buildings	(96,136,630)	(6,787,331)	-	(102,923,961)
Machinery and equipment	(43,966,549)	(5,239,499)	1,964,413	(47,241,635)
Development cost	(1,251,722)	(185,440)	-	(1,437,162)
Water rights	(962,498)	(110,000)	-	(1,072,498)
Total accumulated depreciation	<u>(270,756,614)</u>	<u>(24,501,216)</u>	<u>1,964,413</u>	<u>(293,293,417)</u>
Total capital assets being depreciated, net	<u>348,115,474</u>	<u>(6,633,675)</u>	<u>52,713,083</u>	<u>394,194,882</u>
Business-type activities Capital assets net	<u>\$ 433,950,224</u>	<u>\$ 22,343,262</u>	<u>\$ 41,403,920</u>	<u>\$ 497,697,406</u>

CITY OF McALLEN, TEXAS

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Depreciation expense was charged to business type activity functions as follows:

Water	\$ 4,645,422
Sewer	5,975,189
Sanitation	2,427,312
Golf course	304,155
Performing arts center	766,785
Convention center	1,608,267
McAllen international airport	4,701,434
McAllen express	571,794
Transit terminal	914,543
McAllen international toll bridge	986,388
Anzalduas international crossing	1,533,466
In addition, depreciation on capital assets held by the City's Fleet management funds is charged to the various functions based on their usage of the assets	<u>66,461</u>
Total depreciation-business type activities	<u><u>\$ 24,501,216</u></u>

At September 30, 2017, the City had the following significant remaining contractual commitments for various construction and improvement projects:

<u>Project Description</u>	<u>Remaining Commitment</u>	<u>Financing Sources</u>
McAllen baseball complex	\$ 6,073,400	Grant and bond funds
Paving and drainage	810,809	Local and grant
Public safety building renovation	2,076,890	Local and grant
Sewer improvements	12,303,208	Local and bond funds
Park improvements	587,223	Local and grant
City Hall building improvements	55,000	Local
Performing arts center	<u>78,326</u>	Local and bond funds
	<u><u>\$ 21,984,856</u></u>	

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

(D) Interfund receivables/loans and transfers

The compositions of inter-fund balances as of September 30, 2017 are reflected below.

<u>Receivable Fund:</u>	<u>Payable Fund:</u>	<u>Amount</u>
General Fund	Non-Major Governmental Funds	\$ 1,770,785
	McAllen Toll Bridge	<u>16,822</u>
	Total General Fund	<u>1,787,607</u>
	Total Governmental Funds	<u>1,787,607</u>
Convention Center Fund	Non-Major Governmental Fund	<u>127,071</u>
Performing Arts Center Fund	Non-Major Governmental Fund	<u>54,463</u>
General Depreciation Fund	McAllen Toll Bridge	<u>255,606</u>
General Depreciation Fund	Airport Fund	<u>1,494,178</u>
General Insurance Fund	McAllen Toll Bridge	<u>255,606</u>
General Insurance Fund	Airport Fund	<u>1,494,178</u>
Fleet Materials Management Fund	Health Insurance Fund	<u>517,893</u>
	Total Proprietary Funds	<u>4,198,995</u>
	Combined totals	<u>\$ 5,986,602</u>

A loan arrangement among the General Depreciation Fund and General Insurance Funds between the Airport Fund was agreed upon in the combined total amount of \$3,684,886. This agreement was executed last year to assist with the terminal expansion project. The current outstanding balance totals \$2,988,356. In addition, the General Insurance and General Depreciation Funds initiated long term note payable arrangement to provide tenant improvements and port of entry upgrades in the amount of \$856,384 for the Toll Bridge. The current outstanding balance totals \$511,212. It is disclosed in this section of the notes, since it is not a third party transaction.

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

Transfers are used to 1) provide unrestricted revenues collected in the general fund to finance various programs accounted for in other funds, and 2) move revenues from the fund that the budget requires to collect them to the fund that the budget requires to expend them. The table below reflects the transfer activity at year end.

	Transfer In:								Total
	General Fund	Capital Imprv Fund	Performing arts Center	Convention Center	Nonmajor Governmental	Nonmajor Proprietary	Anzalduas Int'l Crossing Fund	Internal Service	
Transfer out:									
General fund	\$ -	\$ 3,517,381	\$ -	\$ -	\$ 3,289,150	\$ -	\$ -	\$ 329,581	\$ 7,136,112
Sanitation fund	-	-	-	-	-	-	-	41,276	41,276
Development corp	3,489,150	-	-	-	-	1,012,830	-	-	4,501,980
Nonmajor prop.	-	352,716	-	-	16,392	-	-	339,508	708,616
Nonmajor gov.	237,000	-	1,081,595	1,890,899	1,064,257	-	-	5,941	4,279,692
Water fund	-	-	-	-	-	-	-	42,839	42,839
Sewer fund	-	-	-	-	-	-	-	24,390	24,390
Convention center	-	-	690,155	-	-	-	-	10,632	700,787
Internal service	-	-	-	-	-	-	-	1,506,567	1,506,567
Anzalduas Int'l bridge	-	-	-	-	-	-	-	2,502	2,502
McAllen int'l toll bridg	5,700,472	-	-	-	-	-	914,417	8,443	6,623,332
McAllen int'l airport	1,103,965	-	-	-	-	-	-	10,632	1,114,597
Total	\$10,530,587	\$3,870,097	\$ 1,771,750	\$ 1,890,899	\$ 4,369,799	\$ 1,012,830	\$ 914,417	\$2,322,311	\$ 26,682,690

During the year, the General Fund transferred \$3,517,381 of surplus revenues to the Capital Improvement Fund to assist in funding some major projects contemplated in next year's budget, as well as the Transit System Fund's assistance of \$352,716. It also provided funding in the amount of \$3,289,150 to the Debt Service Fund, a non-major governmental fund. This funding is to cover the debt service requirements of the General Obligation Refunding Bonds, Series 2015. It also provided funding in the amount of \$329,581 to the Employee Benefits Fund to provide additional assistance with rising health care expenses.

The Development Corporation provided funding for operating costs to the McAllen Express Fund and Transit System Fund in the amounts of \$803,373 and \$209,457, respectively. It also transferred \$3,489,150 to the General Fund for operating expenditures associated with the public safety building.

The Hotel Occupancy Tax Fund and the Hotel Venue Fund, non-major governmental funds, transferred collections of \$1,890,899 to the Convention Center and \$1,081,595 to the Performing Arts Fund, as well as to the Hotel Venue Debt Service Fund in the amount of \$855,925. During May 2017, the Convention Center Fund transferred \$690,155, which represents the cost basis of 12.567 acres for the location site of the Performing Arts facility.

The City received a transfer in of \$208,332 from the Local Government Finance Corp Construction Fund for the debt service payment for the Local Government Finance Corp bonds.

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

The Performing Arts Construction Fund - CO Series 2014 transferred in \$1,152,044 for the final construction costs related to the Performing Arts Facility.

The transfer of \$237,000 from the Downtown Service Parking Fund, a non-major governmental fund, to the General Fund is a reimbursement for debt service requirements on the debt related to the downtown parking garage. It also provided funding in the amount of \$5,941 to the Employee Benefits Fund.

The transfer of \$1,103,965 from the Airport Fund to the General Fund represents reimbursement for public safety personnel assigned to the airport. It also provided \$10,632 to the Employee Benefits Fund to provide additional assistance with rising health care expenses. The Airport Construction Fund was closed and the residual amount of \$81,526 was transferred to the Airport Fund.

The Sanitation Fund transferred \$41,276 to the Employee Benefits Fund to provide additional assistance with rising health care expenses.

The Civic Center Fund a non-major proprietary fund, transferred \$16,392 to the Performing Arts Construction Fund to assist with construction expenditures for the Performing Arts Center, as well as the Health Insurance Fund, \$323,561.

The Convention Center Fund transferred \$10,632 to the Employee Benefits Fund to provide additional assistance with rising health care expenses.

The amount reflected from the McAllen International Toll Bridge Fund to the General Fund of \$5,700,472 represents the City's share of surplus net revenue from operation of the international toll bridge. Additionally, it transferred \$914,417 to the Anzalduas International Crossing Fund for debt service requirements on the International Toll Bridge System Revenue Bonds, Series 2007B/2017B Refunding Bonds. Additionally, it transferred \$8,443 to the Employee Benefits Fund to provide additional assistance with rising health care expenses.

The Employee Benefits Fund was provided operating funding from various sources. These sources, in addition to those previously mentioned above, were received from the following funds: Water Fund--\$42,839; Sewer Fund--\$24,390; Palm View Golf Course Fund--\$4,065; Transit System Fund--\$1,563; McAllen Express Fund--\$10,319; Anzalduas International Crossing Fund--\$2,502; Fleet Materials Management Fund--\$6,567; and General Insurance Fund--\$1,500,000.

(E) Operating leases

The McAllen International Toll Bridge Fund leases property and buildings to the United States Government, the State of Texas, and various commercial dealers under operating leases. The leases range from monthly leases with commercial dealers to a 15-year lease with the General

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

Service Administration (GSA) and a 5-year lease with three additional 5-year extension options with the United Export Traders Association (UETA) of Texas, Inc.

Estimated future minimum lease payments to be received under the non-cancellable operating lease with GSA and UETA are as follows:

<u>Year Ending</u>	<u>GSA</u>	<u>UETA</u>	<u>Total</u>
2018	\$ 2,116,056	\$ 240,000	\$ 2,356,056
2019	2,116,056	240,000	2,356,056
2020	2,116,056	240,000	2,356,056
2021	2,116,056	240,000	2,356,056
2022	2,116,056	240,000	2,356,056
2023-2027	10,580,281	40,000	10,620,281
2028-2029	<u>2,116,056</u>	<u>-</u>	<u>2,116,056</u>
Totals	<u>\$ 23,276,617</u>	<u>\$ 1,240,000</u>	<u>\$ 24,516,617</u>

(F) Long-term liabilities

(1) General obligation bonds and other

The City issues general obligation bonds to finance the acquisition and construction of major capital facilities, generally for governmental activities and are direct obligations, for which the City has pledged the full faith and credit of the government. These bonds generally are serial bonds and carry a term of 20 years or more with varying amounts of principal maturing each year. All outstanding general obligation bonds have been retired, leaving only sales tax revenue bonds and combination tax and revenue certificates of obligation bond indebtedness.

The schedule that follows presents an analysis of general long-term debt outstanding, followed by a schedule of the debt service requirements on those bonds.

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

Governmental activities

\$42,380,000 General Obligation Bonds, Series 2014 due in annual installments ranging from \$600,000 to \$3,085,000 per year through February 15, 2034, with a final installment of \$3,085,000; interest at 3.00% to 5.00%	38,775,000
\$11,850,000 Combination Tax and Revenue Certificates of Obligation, Series 2014 due in annual installments ranging from \$205,000 to \$840,000 per year through February 15, 2034, with a final installment of \$840,000; interest at 3.00% to 4.00%	10,770,000
\$15,035,000 General Obligation Refunding Bonds, Series 2015 due in annual installments ranging from \$3,000,000 to \$3,450,000 per year through February 15, 2020, with a final installment of \$3,450,000; interest at 3.50% to 4.00%	9,395,000
\$24,500,000 Combination Tax & Assessment Revenue Certificates of Obligation, Taxable Series 2016 due in annual installments ranging from \$650,000 to \$1,149,000 per year through February 15, 2046, with a final installment of \$1,149,000; interest at 1.87% to 3.97%	24,500,000
\$5,120,000 Development Corporation of McAllen, Inc. Sales Tax Revenue Bonds, Taxable Series 2016 due in annual installments ranging from \$250,000 to \$380,000 per year through August 15, 2036; interest at 1.40% to 3.50%	5,120,000
\$10,670,000 Local Government Finance Corporation Contract Revenue Bonds, Series 2017 due in annual installments ranging from \$490,000 to \$825,000 per year through August 15, 2036; interest at 2.00% to 5.00%	10,670,000
\$10,165,000 Development Corporation of McAllen, Inc. Sales Tax Revenue Bonds, Taxable Series 2017 due in annual installments ranging from \$465,000 to \$785,000 per year through August 15, 2036; interest at 2.04% to 4.07%	10,165,000

CITY OF McALLEN, TEXAS

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Unamortized bond premium & discount	2,750,849
Net OPEB obligation	1,144,838
Firemen's net pension liability	25,632,406
TMRS net pension liability	18,672,926
Unpaid accumulated compensated absences	<u>10,919,839</u>
Total general long-term liabilities	<u><u>\$168,515,858</u></u>

The annual debt service requirements to maturity on sales tax bonds payable, combination tax and revenue certificates of obligation, general obligations, and certificates of obligation, as of September 30, 2017, including interest, are reflected below:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 5,030,000	\$ 3,862,470
2019	5,265,000	3,775,870
2020	6,680,000	3,565,945
2021	3,550,000	3,402,109
2022	4,340,000	3,252,134
2023-2027	24,210,000	13,779,010
2028-2032	28,820,000	9,162,378
2033-2037	20,010,000	3,884,092
2038-2042	5,875,000	1,714,835
2043-2047	<u>5,615,000</u>	<u>456,703</u>
Totals	<u><u>\$ 109,395,000</u></u>	<u><u>\$ 46,855,546</u></u>

(2) Revenue bonds and other

The City also issues revenue bonds which are repaid from the revenues derived from operating activity of the borrowing fund(s). The total amount of interest expense paid on revenue bonds in the current period was \$3,897,295. The following schedule is an analysis of the business-type activity long-term debt, including related revenue bonds.

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

Business-type activities:

Payable from Water Fund:

\$9,363,200 Waterworks and Sewer System Revenue
and Refunding Bonds, Series 2015 due in annual installments from \$380,000
to \$1,825,000 through February 1, 2030: interest at 2.00% to 5.00% \$ 8,016,400

\$9,937,300 Waterworks and Sewer System Revenue
and Refunding Bonds, Series 2016 due in annual installments from \$1,480,000
to \$1,960,000 through February 1, 2031: interest at 2.00% to 5.00% 9,300,900

Unamortized bond premium 2,256,282

TMRS net pension liability 2,007,593

Unpaid accumulated compensated absences 540,143

Total water fund \$ 22,121,318

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

Payable from Sewer Fund:

\$13,172,700 Waterworks and Sewer System Revenue and Refunding Bonds, Series 2016 due in annual installments from \$1,480,000 to \$1,960,000 through February 1, 2031: interest at 2.00% to 5.00%	\$ 12,329,100
\$39,485,000 Waterworks and Sewer System Revenue Bonds, Series 2009 due in annual installments from \$1,090,000 to \$1,350,000 through February 1, 2040: with no interest	31,130,000
\$1,190,000 Waterworks and Sewer System Improvement Revenue Series 2012 due in annual installments from \$95,000 to \$1,135,000 through February 1, 2022: interest at 0.240% to 0.850%; with interest commencing February 1, 2019	635,000
\$6,655,000 Waterworks and Sewer System Revenue Bonds, Series 2013 due in annual installments from \$175,000 to \$285,000 through February 1, 2043: interest at 1.60%.	5,995,000
\$217,000 Waterworks and Sewer System Revenue Bonds, Series 2013A due in annual installments from \$18,000 to \$25,000 through February 1, 2043: interest at 2.43%.	139,000
\$2,995,000 Waterworks and Sewer System Revenue Bonds, Series 2013B due in annual installments from \$270,000 to \$310,000 through February 1, 2043: interest at 0.52%.	1,840,000
\$7,356,800 Waterworks and Sewer System Revenue and Refunding Bonds, Series 2015 due in annual installments from \$380,000 to \$1,825,000 through February 1, 2030: interest at 2.00% to 5.00%	6,298,600
\$40,000,000 Waterworks and Sewer System Revenue Bonds Series 2015 (loan) due in annual installments from \$710,000 to \$1,730,000 through September 30, 2045: interest at 0.14% to 1.62%	38,580,000
\$7,110,000 Waterworks and Sewer System Revenue Bonds Series 2016 (loan) due in annual installments from \$20,000 to \$315,000 through February 1, 2047: interest at 0.07% to 1.41%	7,110,000
Unamortized bond premium, \$2,813,437, & bond discount, \$542,759	1,897,778

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

Payable from Sewer Fund (Continued):

TMRS net pension liability	\$ 1,243,768
Unpaid accumulated compensated absences	<u>370,481</u>
Total sewer fund	<u>\$ 1,614,249</u>

Payable from Sanitation Fund:

TMRS net pension liability	\$ 2,158,297
Unpaid accumulated compensated absences	<u>486,573</u>
Total sanitation fund	<u>\$ 2,644,870</u>

Payable from Palm View Golf Course Fund:

TMRS net pension liability	\$ 231,817
Unpaid accumulated compensated absences	<u>100,769</u>
Total palm view golf course fund	<u>\$ 332,586</u>

Payable from Convention Center Fund:

TMRS net pension liability	\$ 590,189
Unpaid accumulated compensated absences	<u>121,286</u>
Total convention center fund	<u>\$ 711,475</u>

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

Payable from McAllen International Airport Fund:	
\$9,820,000 Combination Tax and Revenue Certificate of Obligation Bonds, Series 2011 due in annual installments from \$325,000 to \$710,000 through September 30, 2031: interest at 2.00% to 4.75%	\$ 7,565,000
TMRS net pension liability	515,389
Unpaid accumulated compensated absences	<u>153,337</u>
Total airport fund	<u>\$ 8,233,726</u>
Payable from McAllen Express Fund:	
TMRS net pension liability	\$ 559,470
Unpaid accumulated compensated absences	<u>77,996</u>
Total McAllen Express Fund	<u>\$ 637,466</u>
Payable from Transit System Fund:	
TMRS net pension liability	\$ 61,352
Unpaid accumulated compensated absences	<u>6,359</u>
Total Transit System Fund	<u>\$ 67,711</u>
Payable from McAllen International Toll Bridge Fund:	
TMRS net pension liability	\$ 402,425
Unpaid accumulated compensated absences	<u>107,932</u>
Total McAllen International Toll Bridge Fund	<u>\$ 510,357</u>

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

Payable from Anzalduas International Crossing Fund:

\$18,455,000 International Toll Bridge System Revenue Refunding
Bonds, Series 2017A due in annual installments from \$900,000
to \$1,690,000 through March 1, 2032: interest at 2.00% to 5.00% \$ 18,455,000

\$10,185,000 International Toll Bridge System Revenue Refunding
Bonds, Series 2017B due in annual installments from \$570,000
to \$825,000 through March 1, 2032: interest at 2.00% to 3.50% 10,185,000

TMRS net pension liability 142,720

Unpaid accumulated compensated absences 16,764

Unamortized bond premium 2,562,924

Total Anzalduas International Crossing Fund \$ 31,362,408

Payable from Fleet Materials Management Fund (an internal service fund
treated as BTA):

TMRS net pension liability \$ 310,298

Unpaid accumulated compensated absences 38,953

Total Fleet Materials Management Fund \$ 349,251

Total Proprietary Fund Long Term Liabilities \$ 174,539,895

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

The table below reflects the revenue bond debt service requirements to maturity.

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 7,432,000	\$ 3,596,693
2019	7,592,000	3,441,083
2020	7,763,000	3,259,267
2021	7,968,000	3,059,919
2022	8,364,000	2,843,528
2023-2027	41,435,000	10,458,864
2028-2032	38,790,000	4,676,048
2033-2037	16,580,000	1,766,989
2038-2042	14,730,000	978,545
2043-2047	<u>6,925,000</u>	<u>181,848</u>
Total bonds outstanding	<u>\$ 157,579,000</u>	<u>\$ 34,262,784</u>

In addition, interfund notes payable of \$2,956,903 was reflected at the end of September 30, 2017 under the business-type activities and will be liquidated by the Airport and Toll Bridge Funds. This amount is reflected in section (D) interfund receivables/loans, and transfers.

Revenue Bonds Refunding

Due to favorable interest rates, during fiscal year 2017, \$31,174,708, including premium, of Series 2017A and 2017B Refunding Bonds were issued to refund \$30,898,028 of the City's previously issued and outstanding Series 2007A and 2007B Bonds, plus accrued interest and interest cost. The proceeds were deposited with an escrow agent.

As a result of the refunding, the City reduced its aggregate debt service payments to maturity by \$3.1M for Series 2017A and \$1.5M for Series 2017B, respectively. Also, it obtained an economic gain (difference between present value of the debt service payments on the old and new debt) of \$3.6M for the refunding Series 2017A and 2017B.

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

(3) Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2017 is shown on the following table:

	Balance at September 30, 2016	Additional Obligations and Net Increases	Retirement and Net Decreases	Balance at September 30, 2017	Amounts Due Within One Year
Governmental activities:					
Sales tax revenue bonds	\$ 5,120,000	\$ 10,165,000	\$ -	\$ 15,285,000	\$ -
Certificates of obligation	35,715,000	10,670,000	(445,000)	45,940,000	465,000
General obligation bonds	52,555,000	-	(4,385,000)	48,170,000	4,565,000
Bond premium	2,999,467	445,587	(540,890)	2,904,164	455,797
Bond discount	(158,719)	-	5,404	(153,315)	5,404
Compensated absences	10,359,164	4,363,003	(3,802,328)	10,919,839	3,771,562
TMRS net pension liability	18,028,374	644,552	-	18,672,926	-
Net OPEB obligation	1,329,600	-	(184,762)	1,144,838	-
Fire net pension liability	27,828,153	-	(2,195,747)	25,632,406	-
Total general long-term	153,776,039	26,288,142	(11,548,323)	168,515,858	9,262,763
Business-Type activities:					
Revenue bonds payable	159,490,000	35,750,000	(37,661,000)	157,579,000	7,432,000
Compensated absences	1,942,560	1,352,233	(1,274,200)	2,020,593	2,041,834
Bond premium	5,821,414	2,562,924	(1,135,172)	7,249,166	916,647
Bond discount	(542,759)	(129,146)	139,723	(532,182)	(139,723)
TMRS net pension liability	7,938,450	284,868	-	8,223,318	-
Total proprietary fund debt	174,649,665	39,820,879	(39,930,649)	174,539,895	10,250,758
Total debt	\$ 328,425,704	\$ 66,109,021	\$ (51,478,972)	\$ 343,055,753	\$ 19,513,521

With respect to governmental activities; compensated absences, TMRS net pension liability, net OPEB obligation and the Fire net pension liability are liquidated by the General Fund. Under business-type activities, the TMRS net pension liabilities are liquidated by the respective proprietary funds and Fleet fund.

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

(4) Debt covenants

The City is required to comply with various provisions included in the trust indenture for issued bonds (including bonds issued through the Texas Water Development Board). The City has complied with all significant provisions of the trust indenture.

Bonds issued by the City for the construction of the toll bridge located in the City of Mission are secured by the net revenues of both international bridges. Also, bonds issued by the City for water and sewer improvements are secured by pledging the net revenues of the water and sewer utilities systems.

IV. Other information

(A) Risk Management

The City is exposed to various risks or torts; theft of, damage to, and destruction of assets; injuries to employees, citizens and the general public; and natural disasters. During fiscal year 2017, the City self-funded group health insurance, life insurance, general liability insurance, and workmen's compensation insurance. The City purchased insurance coverage for fire and extended coverage on buildings and contents; and fire, lightning, and windstorm insurance for its vehicles for damages in excess of certain limits.

The group health insurance program is reported in the Employee Benefits Fund, an internal service fund. General liability and workmen's compensation insurance programs are reported in the General Insurance Fund, an internal service fund, and the Retiree Health Insurance Fund, an internal service fund.

The health insurance excess coverage policy covers individual claims in excess of \$150,000. Third-party coverage is currently maintained for workmen's compensation claims in excess of \$400,000. Third-party coverage is also currently maintained for general liability claims in excess of \$10,000.

The City estimates the liabilities for its self-funded insurance programs on a case-by-case basis based on historical claims experience. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss is reasonably estimable. Accruals for claims are adjusted on a regular basis based on the latest information available on each case. Claims incurred but not reported have been considered in determining the accrual for claims, and City management believes adequate accruals have been provided at September 30, 2017. Inter-fund premiums are based primarily on claims experience and are reported as interfund services provided and used.

CITY OF McALLEN, TEXAS

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September 30, 2017

There were no significant reductions in insurance coverage from coverage in the prior year by major category of risk. In addition, there were no insurance settlements exceeding insurance coverage in any of the past three years. Changes in claims payable amounts for the most recent two years are reflected below:

	<u>Employee Benefits</u>	<u>Retiree Health Insurance</u>	<u>Risk Management</u>	<u>Property & Casualty Insurance</u>	<u>Total</u>
Claims payable at September 30, 2015	\$ (1,750,000)	\$ (240,000)	\$ (405,712)	\$ -	\$ (2,395,712)
Current period claims and changes in estimate	(9,870,903)	(1,098,422)	(923,373)	-	(11,892,698)
Current period claims paid	<u>9,870,903</u>	<u>1,098,422</u>	<u>923,373</u>	<u>-</u>	<u>11,892,698</u>
Claims payable at September 30, 2016	<u>(1,750,000)</u>	<u>(240,000)</u>	<u>(405,712)</u>	<u>-</u>	<u>(2,395,712)</u>
Current period claims and changes in estimate	(10,705,875)	(1,499,876)	(981,271)	(498,221)	(13,685,243)
Current period claims paid	<u>11,449,226</u>	<u>1,499,876</u>	<u>868,971</u>	<u>445,967</u>	<u>14,264,040</u>
Claims payable at September 30, 2017	<u>\$ (1,006,649)</u>	<u>\$ (240,000)</u>	<u>\$ (518,012)</u>	<u>\$ (52,254)</u>	<u>\$ (1,816,915)</u>

(B) Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's management and legal counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

The City has been granted authority from U.S. Citizenship and Immigration Service to operate an EB-5 Visa (also known as the Employment Based 5th Preference Visa) Regional Center, which attracts foreign investment for jobs creation in exchange for expediting applicants for permanent residency. This activity is accounted for in a non-major governmental fund. Under this program a foreign national deposits with the City, in addition to \$10,000 application fee, \$540,000, which is held in deposit pending approval of permanent residency, at which time \$40,000 is released to the City as an administrative fee and the remaining \$500,000 to the

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

investment project selected by applicant. As of September 30, 2017, the deposit amount totaled \$65,000.

(C) Accounting for post-employment benefits other than pensions

- (1) Plan Description: The City provides post-employment health care benefits for eligible retirees and their dependents. To be eligible to elect retiree medical coverage, a City employee retiring at age 60 or over must have at least 10 years of service with the City. City employees retiring before age 60 must have at least 20 years of service with the City. Members of the City's Fire Department are eligible to retire on or after age 50 with at least 20 years of service with the City.

Effective October 1, 2008, spouses must have been covered for at least three years prior to retirement. Retirees less than age 65 will have a one-time option to drop coverage and to be reinstated once the retiree reached age 65 and has enrolled in Medicare Parts A and B. Retirees are required to pay 100% of the blended (active and retiree) premium cost for both single and dependent coverage. However, police officers who retired prior to October 1, 2010 with 25 or more years of service pay 50% of the blended premium cost for both single and dependent coverage. As of year-end, there were 125 employees who had retired: 61 with single coverage and 64 dependent subscribers.

- (2) Funding Policy: The policy of the City is to fund the plan on a pay-as-you-go basis.
- (3) Annual OPEB Cost and Net OPEB Obligation: The Retiree Health Insurance Fund's (Fund) ARC is actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The most current actuarial valuation was October 1, 2016. The following table shows the Fund's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Fund's net OPEB obligation. This net OPEB obligation in the amount of \$1,144,838 is recorded in the governmental activities column of the statement of net position.

CITY OF McALLEN, TEXAS

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Net OPEB Obligation

Annual required contribution	\$	843,745
Interest on net OPEB obligation		59,832
Adjustment to annual required contribution		<u>(81,621)</u>
Annual OPEB cost		821,956
Contributions made		(1,006,718)
Increase in net OPEB obligation		(184,762)
Net OPEB obligation at beginning of year		<u>1,329,600</u>
Net OPEB obligation at end of year		<u>\$ 1,144,838</u>

The City's annual OPEB cost and the percentage cost contributed to the plan for the year ended September 30, 2017 is as follows:

Year Ended September 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset) at Year End
2015	\$ 734,852	111.3%	\$ 1,142,521
2016	825,022	77.32%	1,329,600
2017	821,956	77.61%	1,144,838

- (4) **Funded Status and Funding Progress:** The funding of the plan was based on the actuarial valuation dated October 1, 2016. The study reported the unfunded actuarial accrued liability (UAAL) at \$8,978,891 with an annual required contribution of \$843,745. The actuarial value of assets was \$0, resulting in an UAAL of \$8,978,891. The City contributed \$1,006,718 at year end. The City will also be required to have an actuarial valuation performed at least every two years.

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

The next actuarial valuation will be performed at the end of September 30, 2017. The table below reflects the funding progress.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
10/01/12	-	7,165,857	7,165,857	0.0%	62,616,631	11.4%
10/01/14	-	8,137,801	8,137,801	0.0%	67,484,896	12.1%
10/01/16	-	8,978,891	8,978,891	0.0%	67,161,351	13.4%

(5) Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing the benefits costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations. For the fiscal year ended September 30, 2017, the actuarial valuation date was October 1, 2016. The actuarial method used was the “projected unit credit” method, the amortization method used was the “level dollar open” method, and the remaining amortization period was 30 year open period. The asset valuation method was market value and the assumed investment rate of return was 4.5%. The healthcare initial inflation rate was 5.67%, with an ultimate goal of 4.24%. Assumptions such as projected salary increases and post-retirement benefit increases are not applicable to the plan.

(D) Retirement Plans

(1) Texas Municipal Retirement System

a). Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of 201 Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS’s defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the

CITY OF McALLEN, TEXAS

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Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the city are required to participate in TMRS. Fire department personnel, except clerical staff, have a separate pension plan and are not covered by TMRS.

b). Benefits provided

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

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

Plan provisions for the City are as follows:

Employee deposit rate	7.0%
Matching ratio (city to employee)	2 to 1
Years required for vesting	10
Service retirement eligibility (expressed as age/years of service)	60/10,0/20
Updated Service Credit	100%, Transfers
Annuity Increase (to retirees)	0% of CPI

Employees covered by benefit terms –

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

Inactive employees or beneficiaries currently receiving benefits	486
Inactive employees entitled to but not yet receiving benefits	370
Active employees	<u>1,579</u>
Total	<u>2,435</u>

CITY OF McALLEN, TEXAS

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c). Contributions

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

Employees for the City of McAllen were required to contribute 7% of their annual gross earnings during the fiscal year. For fiscal year 2017, the City made contributions of 7.90%.

d). Net Pension Liability

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

Actuarial assumptions--

Inflation	2.50% per year
Overall payroll growth	3.00% per year
Investment Rate of Return	6.75% per year composed of an assumed 2.50% inflation rate and a 4.25% net real rate of return

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

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. This experience study was for the period December 31, 2010 through December 31, 2014, first used in the December 31, 2015 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal

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(EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2016 valuation.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
Total	<u>100.00%</u>	

Discount Rate—

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

CITY OF McALLEN, TEXAS

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Changes in the Net Pension Liability—

	Increase (Decrease)		
	Total Pension <u>Liability</u> (a)	Plan Fiduciary <u>Net Position</u> (b)	Net Pension <u>Liability</u> (a) - (b)
Balance at 12/31/2015	\$ 237,640,486	\$ 211,673,662	\$ 25,966,824
Changes for the year:			
Service cost	7,992,201	-	7,992,201
Interest	15,972,265	-	15,972,265
Difference between expected and actual experience	285,052	-	285,052
Contributions-employer	-	4,477,156	(4,477,156)
Contributions-employee	-	4,707,800	(4,707,800)
Net investment income	-	14,305,407	(14,305,407)
Benefit payments, including refunds of employee contributions	(10,020,877)	(10,020,877)	-
Administrative expense		(161,560)	161,560
Other	-	(8,705)	8,705
Net Changes	<u>14,228,641</u>	<u>13,299,221</u>	<u>929,420</u>
Balance at 12/31/2016	<u>\$ 251,869,127</u>	<u>\$ 224,972,883</u>	<u>\$ 26,896,244</u>

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

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

	1% Decrease in Discount Rate <u>(5.75%)</u>	Current Discount Rate <u>(6.75%)</u>	1% Increase in Discount Rate <u>(7.75%)</u>
City's net pension liability	\$ 63,490,037	\$ 26,896,244	\$ (3,109,225)

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Pension Plan Fiduciary Net Position–

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

e). Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

For the year ended September 30, 2017, the City recognized pension expense of \$9,846,600.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 519,628	\$ -
Difference in assumption changes	5,690,953	-
Difference between projected and actual investment earnings	9,718,403	13,948
Contributions subsequent to the measurement date	4,154,054	-
Total	\$ 20,083,038	\$ 13,948

\$4,154,054 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the measurement year ending September 30, 2018.

CITY OF McALLEN, TEXAS

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Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in future pension expense as follows:

Year ended	
<u>Dec 31</u>	
2017	\$ 4,707,641
2018	4,707,643
2019	4,194,590
2020	1,297,011
2021	985,017
Thereafter	<u>23,134</u>
Total	<u>\$ 15,915,036</u>

(2) Firemen’s Relief & Retirement Fund

a). Plan Description

Firemen’s Relief & Retirement Fund, a single-employer defined benefit plan (the “Plan”), was created pursuant to the Texas Local Fire Fighter’s Retirement Act (“TLFFRA”) and is administered by the Board of Trustees of the fund. The fund provides pension, disability, death, and severance benefits to employees of the City’s fire department and former volunteer firemen eligible to receive benefits.

At the September 30, 2017 valuation and measurement date, the following members were covered by the benefit terms:

Retirees and beneficiaries currently receiving benefits	103
Terminated employees entitled to but not yet receiving benefits	-
Active members	<u>170</u>
Total	273

The City issues a publicly-available financial report that includes financial statements and required supplementary information for the Firemen’s Relief & Retirement Fund. This financial report may be obtained by writing to the City of McAllen Finance Director, P.O. Box 220, McAllen, Texas 78505-0220 or by calling (956) 681-1081.

CITY OF McALLEN, TEXAS

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b). Summary of Significant Accounting Policies

Basis of Accounting – The financial statements of the Firemen’s Relief & Retirement Fund are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues when due, pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan document.

Plan Benefits – Benefit provisions are established under authority of the TLFFRA. Specific plan provisions are governed by a Plan document and a trust agreement executed by the Board of Trustees. The Plan document may be amended as provided in Section 7 of the TLFFRA (Article 6243e, V.T.C.S.) Amending the Plan requires approval of any proposed change by an eligible actuary and a majority of the participating members of the Plan. Both the City and the members of the Plan have specific authority to appoint members of the Board under TLFFRA.

Pension Benefits – A member is eligible for service retirement upon completion of 20 years of service and attainment of age 50. A member who retires under the service retirement provisions of the fund will receive a monthly benefit equal to the sum of (a), (b), and (c) where: (a) equal to 2.9 percent of the member’s highest 60-month average salary for each of the member’s years of service up to and including the 20th year of service and (b) equals the greater of 2.9 percent of the member’s highest 60-month average salary, or \$58.00 per month for each of the member’s 21st and 22nd years of service, and (c) equals \$58.00 per month for each year of service in excess of 22 years.

Disability Benefits – An active member who becomes disabled as defined in the plan will receive a monthly disability benefit. Separate disability benefits are provided for duty-related and off-duty disabilities. Disability benefits are payable in the same joint-and-survivor form as service retirement benefits. However, disability benefits stop if the member recovers to the point that he no longer meets the definition of disability under the fund. If the total monthly amount a disabled member receives from (a) the fund, (b) workers compensation, and (c) the City of McAllen, exceeds the member’s monthly rate of pay as of his date of disability, the amount payable from the fund will be reduced so that the member’s benefit from all three sources, combined, does not exceed such rate of pay.

Death Benefits – Duty-related death benefits, payable to a member’s spouse for as long as they are living, equal the sum of (a) 38.67% of the member’s highest 60-month average salary, (b) plus two-thirds of any additional service benefit earned by the member as of the date of their death. The death benefit is payable for life, but it ceases upon remarriage. Effective January 1, 2006 the widowed spouse of a member who completed 10 or more years of service prior to their death will have the death

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benefit payments terminated in the event of remarriage. In addition to the above spousal death benefit, each unmarried child of the member will receive a monthly benefit of 7.73 percent of the fire fighter's highest 60-month average salary. Orphan benefits continue until the child reaches age 18. However, benefits will continue until age 22 for a child who is a full-time student. If the member's spouse dies or remarries, or if the member has no spouse on the date of their death, each eligible orphan will receive a monthly benefit of 15.47 percent of the member's highest 60-month average salary. Orphan benefits are continued for life to disabled children. The total of all benefits paid as a result of the death of an active fund member may not exceed the disability or retirement benefits such member had earned as of the date of their death. The total of all benefits paid as a result of the death of a retired member may not exceed the retirement benefit the member was receiving as of the date of their death. Benefits are reduced pro rata, if necessary, in order to satisfy these limitations.

Severance Benefits – Members who terminate employment with less than 10 years of service will be entitled to the return of the excess of their contributions to the fund over the amount of any benefits they have received from the Plan. Such refunds will not include any interest on the members' contributions. If members terminate on or after the date they have completed 10 years of service but prior to the date they complete 20 years of service, they will be entitled to receive a monthly benefit, starting on the date they would have both completed 20 years of service and attained age 50, had they remained in the service of the fire department. The amount the members will receive will equal the monthly service retirement benefit they had accumulated on the date they separated from service with the fire department, multiplied by the vested percentage of the members.

The Deferred Retirement Option Plan (DROP) – A member is eligible to receive their benefits under the plan's DROP provision after they have both completed 20 years of service and attained age 53. The election to participate in the DROP may be made at the time the member elects to retire. The monthly retirement income payable to a member who retires under the DROP will equal their service retirement benefits under the plan based on highest 60-month average salary and years of service as of the member's DROP Eligibility Date. The member's benefit will be calculated, however using the benefit formula in effect on the member's actual date of retirement. A members DROP Eligibility Date is the later of (a) the date the member meets the eligibility requirements for the DROP or (b) the date which is two years prior to the member's actual retirement date: Upon retirement, the member will receive—in addition to their monthly retirement benefit—a single payment equal to the sum of: (a.) the total of the monthly retirement benefits the member would have received between his DROP Eligibility Date and the time they retired under the plan, and (b.) the amount of monthly contributions that the member has made to the fund between their DROP Eligibility Date and the time they retired under the plan.

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Method Used to Value Investments – The Plan’s investments are stated at fair value and, accordingly, unrealized appreciation and depreciation are reported in the statement of changes in fiduciary net position. The fair value of money market funds is considered to be the same as the cost of these investments due to their nature. The fair value of common stocks and foreign equities are based on quoted market prices. The fair value of United States Government securities and corporate and foreign bonds are based on quotes from broker dealers. The Plan values investments in alternative funds based on its percentage investment in each such fund. The estimated fair value of each fund is based on market conditions and information reported by the fund manager, and is generally based on the estimated fair value of each funds’ underlying investments at the end of the reporting period.

Purchases and sales of investments are recorded on a trade-date basis and, accordingly, the related receivables and payables for any unsettled trades are recorded. Interest income and dividends are recorded on the accrual basis.

d). Net Pension Liability

Total pension liability is developed by subtracting the present value of future service costs from the present value of future benefits. The net pension liability is calculated by subtracting the plan fiduciary net position from the pension liability. The components of the net pension liability of the Plan at September 30, 2017 were as follows:

Total pension liability	\$	75,091,715
Plan fiduciary net position		<u>49,459,309</u>
Net pension liability	\$	<u>25,632,406</u>
Fiduciary net position		
as a percentage of total pension liability		65.87%
Covered payroll		11,524,569
Net pension liability as a % of covered payroll		222.42%

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Actuarial Assumptions -

The total pension liability was determined by an actuarial valuation as of October 1, 2016 and rolled forward to the measurement date of September 30, 2017, the Plan's fiscal year end.

Valuation date	October 1, 2016
Measurement date	September 30, 2017
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Actuarial assumptions:	
Investment rate of return	7.75% per annum, compounded annually
Projected salary increases	4.00% to 8.60%, including inflation based on service at attained age (fund specific)
Inflation	3.00% per year
Cost-of-living adjustment	None
Mortality	Employee and health annuitant combined rates from the RP-2000 Mortality Table, projected to 2024 using Scale AA, with separate rates for males and females
Other information	There have been no benefit changes since the October 1, 2016 valuation date

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The investment rate of return and the projected salary increases both used the same assumptions with regard to inflation. Best estimates of long-term real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2017 are summaries in the table below:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Cash	0.63%	0.00%
Fixed income	22.86%	3.00%
Equities		
(a) Domestic	43.48%	7.25%
(b) International	16.27%	5.75%
Alternative investments	16.76%	3.00%

Discount Rate—

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the City will be made at contractually required rates. Based on this assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Changes in the Net Pension Liability– Firemen’s Relief and Retirement Fund Plan

	Increase (Decrease)		
	Total Pension <u>Liability</u>	Plan Fiduciary <u>Net Position</u>	Net Pension <u>Liability</u>
	(a)	(b)	(a) - (b)
Balance at 9/30/2016	\$ 72,587,208	\$ 44,759,055	\$ 27,828,153
Changes for the year:			
Service cost	1,865,778	-	1,865,778
Interest	5,361,757	-	5,361,757
Difference between expected and actual experience	(1,202,731)	-	(1,202,731)
Benefit payments, including refunds of member contributions	(3,520,297)	(3,520,297)	-
Contributions-employer	-	1,498,194	(1,498,194)
Contributions-members	-	1,266,209	(1,266,209)
Expected net investment income	-	5,489,970	(5,489,970)
Expected administrative expense		(33,822)	33,822
Net Changes	2,504,507	4,700,254	(2,195,747)
Balance at 9/30/2017	\$ 75,091,715	\$ 49,459,309	\$ 25,632,406

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

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.50%, as well as what the Plan’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease in Discount Rate <u>(6.5%)</u>	Current Discount Rate <u>(7.5%)</u>	1% Increase in Discount Rate <u>(8.5%)</u>
Plan's net pension liability	\$ 39,339,224	\$ 25,632,406	\$ 21,674,434

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

For the year ended September 30, 2017, the Plan recognized pension expense of \$2,755,348

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ -	\$ 900,692
Changes in actuarial assumptions	-	2,640,305
Difference between projected and actual investment earnings	<u>158,658</u>	<u>-</u>
Total	<u>\$ 158,658</u>	<u>\$ 3,540,997</u>

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Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended		
<u>Sept 30</u>		
2018	\$	87,514
2019		87,515
2020		(1,081,277)
2021		(931,678)
2022		(499,146)
2023-2027		<u>(1,045,267)</u>
Total	\$	<u><u>(3,382,339)</u></u>

d). Contributions

The Plan's minimum required contribution provisions are established under Title 8, Subtitle A, Chapter 802, Subchapter B, Section 802.101 of the Texas Government Code and under Texas Pension Review Board Guidelines for Actuarial Soundness. Specific Plan contribution rates are governed by the Plan document. Changes in the members' or the City's contribution rate requires a plan amendment.

The contribution rates of the Plan members and the City are established under the terms of the Plan. An actuarial valuation is performed biennially to verify that Plan benefits and Plan contributions are in balance. Costs of administering the fund are paid from Plan assets.

Pursuant to the Plan document, a legal instrument binding both the City and its firefighters, the City of McAllen is required to match employee contributions. Benefits paid to former volunteer firefighters are funded by the City when paid to the former volunteer firefighters or beneficiaries. The City's contribution rate for the fiscal year ended September 30, 2017 was 13.50% of annual compensation. Contributions required and paid into the fund as of September 30, 2017 were members, \$1,266,210 and employer, \$1,498,194.

e). Other pension information

In September 2003, Texas voters approved an amendment to the Texas Constitution, which provided that once certain benefits are granted to retirees, those benefits may not be subsequently reduced. It was codified as Article XVI, Section 66, of the Texas Constitution. The amendment applies only to the City of McAllen Firefighters' Relief and Retirement Plan.

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It further provided that the City and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits are not reduced or otherwise impaired, which could potentially require the City to involuntarily increase its funding due to under-performing investments, plan improvements as well as other factors outside the control of the City. The amendment also permitted the City to be exempt from its requirements upon holding an election in which the majority of the votes favored the exemption. On May 15, 2004, a special City election was held, in which the majority of the voters voted in favor of exempting the City of McAllen and the McAllen Firefighters' Relief and Retirement Plan from the application of this amendment, Article XVI, Section 66 of the Texas Constitution.

(E) Tax Increment Reinvestment Zone Number One

On December 22, 2014, the City Commission passed a resolution establishing Tax Increment Reinvestment Zone Number One, City of McAllen, Texas (TIRZ#1) containing approximately 2,571 acres of land located in the northern most area of the City's jurisdictional limits and designating the area as a reinvestment zone being commonly referred to as the "Tres Lagos Development Project". On November 18, 2015, a resolution was passed by the Board of Directors of TIRZ#1, approving an amended supplemental project and financing plan providing for an effective date of December 14, 2015. The City has committed to contribute to the Tax Increment Fund created for TIRZ#1, 70% of its tax increment derived from the City's maintenance and operations ad valorem taxes generated therein for years 2015 through 2025, and 80% for years 2026 through 2044. The amount to be contributed to TIRZ #1 is based upon the incremental increase in the appraised value each January 1st compared to the base year appraised value of property in the Zone as of January 1, 2014. On April 7, 2016, the Commissioners Court of Hidalgo County passed and approved an amended interlocal agreement to participate in TIRZ#1 by pledging 67% of its maintenance and operation portion of the County's assessed and collected taxes for years 2015 through 2025, and 77% for years 2026 through 2044. The amount contributed by both taxing entities will be set aside for capital improvement projects within TIRZ #1 beginning with taxes levied after January 1, 2015. On June 1, 2016, the City issued Combination Tax and Assessment Revenue Certificates of Obligation-Taxable Series 2016 in the amount of \$24,500,000 to pay for public improvements for TIRZ#1. As of September 30, 2017, \$18.3M from these bonds proceeds were spent on infrastructure and drainage improvements within TIRZ#1.

(F) Tax Increment Reinvestment Zone Number Two

On December 14, 2015, the City created a second TIRZ known as Tax Increment Reinvestment Zone Number Two, City of McAllen, Texas (TIRZ #2). This second TIRZ covers approximately 1,702 acres located in the south central area of City. The City committed to contribute to the Tax Increment Fund created for TIRZ#2 60% of its tax increment derived from the City's maintenance and operations ad valorem taxes generated therein for 20 years. As of September 30, 2017, there was no activity to report for TIRZ #2.

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

(G) Public Improvement District (PID)

On April 15, 2015, the City Commission approved a resolution creating the Tres Lagos Public Improvement District (PID) for the purpose of financing the costs of maintaining improvements, and providing services within and/or related to the Tres Lagos Development Project. As of September 30, 2017, there was no activity to report for the Tres Lagos PID.

(H) Tax Abatements

The City of McAllen negotiates loans, grants, property tax abatement agreements, property tax rebates, and sales tax rebates on an individual basis. These agreements are designed to promote local economic development and redevelopment within the City, stimulate commercial activity, promote job creation, generate additional sales tax and enhance the property tax base and economic vitality of the City. This program is authorized under Chapter 380.001 of the Texas Local Government Code.

The City has entered into various agreements that rebate a percentage of property, sales tax, and employment related reimbursements as well as economic development grants. The reimbursement amounts range per type of agreement once certain milestones are attained. There were no tax abatements issued as of September 30, 2017.

(I) Subsequent events

On January 30, 2018, the City issued Sales Tax Revenue Bonds, Taxable Series 2018 for \$5,115,000 to finance the final portion of the costs of two new parking garages at La Plaza Mall.

On February 15, 2018, the City issued Combination Tax and Revenue Certificates of Obligation, Series 2018 for \$5,890,000 to construct and equip a new fire station, as well as a Parks and Recreation Department facility, each with related infrastructure and parking lots.

On February 16, 2018 the City sold 20 acres of land to IDEA school for \$1,100,741. IDEA School plans to build a school for grades Pre-K to 12.

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Required Supplementary Information

City of McAllen, Texas
Required Supplementary Information-(Unaudited)
Texas Municipal Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios
Last Three Fiscal Years (Previous years unavailable)

	Measurement Year 2014	Measurement Year 2015	Measurement Year 2016
Total pension liability:			
Service cost	\$ 6,805,485	\$ 7,407,030	\$ 7,992,201
Interest(on the total pension liability)	14,011,751	15,035,551	15,972,265
Changes of benefit terms	-	2,340,034	-
Difference between expected and actual experience	12,762	385,103	285,052
Change in assumptions	-	8,087,143	-
Benefit payments, including refunds of employee contributions	<u>(8,961,369)</u>	<u>(8,728,811)</u>	<u>(10,020,877)</u>
Net change in total pension liability	11,868,629	24,526,050	14,228,641
Total pension liability - beginning	<u>201,245,807</u>	<u>213,114,436</u>	<u>237,640,486</u>
Total pension liability - ending (a)	<u><u>\$ 213,114,436</u></u>	<u><u>\$ 237,640,486</u></u>	<u><u>\$ 251,869,127</u></u>
Plan fiduciary net position:			
Contributions - employer	\$ 4,139,770	\$ 4,278,578	\$ 4,477,156
Contributions - employee	4,367,657	4,595,301	4,707,800
Net investment income	11,471,696	311,957	14,305,407
Benefit payments, including refunds of employee contributions	(8,961,369)	(8,728,811)	(10,020,877)
Administrative expense	(119,767)	(190,013)	(161,560)
Other	<u>(9,847)</u>	<u>(9,385)</u>	<u>(8,705)</u>
Net change in plan fiduciary net position	10,888,140	257,627	13,299,221
Plan fiduciary net position - beginning	<u>200,527,895</u>	<u>211,416,035</u>	<u>211,673,662</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 211,416,035</u></u>	<u><u>\$ 211,673,662</u></u>	<u><u>\$ 224,972,883</u></u>
Net pension liability - ending (a) - (b)	\$ 1,698,401	\$ 25,966,824	\$ 26,896,244
Plan fiduciary net position as a percentage of total pension liability	99.20%	89.07%	89.32%
Covered employee payroll	\$ 62,261,492	\$ 65,030,992	\$ 67,161,351
Net pension liability as a percentage of covered employee payroll	2.73%	39.93%	40.05%

Note: This is a 10-year schedule to be created prospectively commencing with Measurement Year 2014.

City of McAllen, Texas
Required Supplementary Information – (Unaudited)
Texas Municipal Retirement System
Schedule of Contributions
Last Three Fiscal Years (Previous years unavailable)

Fiscal Year	(1) Actuarial determined contribution	(2) Contribution in relation to the actuarially determined contribution	(3) Contribution excess (deficiency) (2)-(1)	(4) Covered employee payroll	(5) Contributions as a percentage of covered employee payroll (2)/(4)
2015	\$ 4,200,690	\$ 4,200,685	\$ (5)	\$ 64,045,229	6.56%
2016	4,594,830	4,594,391	(439)	69,339,611	6.63%
2017	5,197,019	5,197,025	6	68,243,115	7.62%

Note: This is a 10-year schedule to be created prospectively commencing with Fiscal Year 2015.

Valuation Date: Actuarial determined contribution rates are calculated as of December 31st and become effective in January, 13 months later.

Methods and Assumptions Used to Determine Contribution Rate for 2017:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 – 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Other Information:	There were no benefit changes during the year.

City of McAllen, Texas
Required Supplementary Information – (Unaudited)
Firemen's Relief and Retirement Fund
Schedule of Changes in Net Pension Liability and Related Ratios
Last Four Fiscal Years (Previous years unavailable)

	Measurement Year 2014	Measurement Year 2015	Measurement Year 2016	Measurement Year 2017
Total pension liability:				
Service cost	\$ 1,573,197	\$ 1,824,526	\$ 2,879,641	\$ 1,865,778
Interest (on the total pension liability)	4,841,219	4,884,830	5,130,946	5,361,757
Difference between expected and actual experience	-	221,439	-	(1,202,731)
Change in assumptions	-	(3,414,995)	-	-
Benefit payments, including refunds of member contributions	<u>(2,588,586)</u>	<u>(3,170,707)</u>	<u>(3,876,966)</u>	<u>(3,520,297)</u>
Net change in total pension liability	3,825,830	345,093	4,133,621	2,504,507
Total pension liability - beginning	<u>64,282,664</u>	<u>68,108,494</u>	<u>68,453,587</u>	<u>72,587,208</u>
Total pension liability - ending (a)	<u>\$ 68,108,494</u>	<u>\$ 68,453,587</u>	<u>\$ 72,587,208</u>	<u>\$ 75,091,715</u>
Plan fiduciary net position:				
Contributions - employer	\$ 1,435,293	\$ 1,477,483	\$ 1,554,567	\$ 1,498,194
Contributions - members	1,214,786	1,223,445	1,265,734	1,266,209
Benefit payments, including refunds of member contributions	(2,588,586)	(3,170,707)	(3,876,966)	(3,520,297)
Expected net investment income	2,525,951	(2,467,023)	3,867,719	5,489,970
Expected Administrative expense	<u>(23,961)</u>	<u>(46,070)</u>	<u>(352,963)</u>	<u>(33,822)</u>
Net change in plan fiduciary net position	2,563,483	(2,982,872)	2,458,091	4,700,254
Plan fiduciary net position - beginning	<u>42,720,353</u>	<u>45,283,836</u>	<u>42,300,964</u>	<u>44,759,055</u>
Plan fiduciary net position - ending (b)	<u>\$ 45,283,836</u>	<u>\$ 42,300,964</u>	<u>\$ 44,759,055</u>	<u>\$ 49,459,309</u>
Net pension liability - ending (a) - (b)	\$ 22,824,658	\$ 26,152,623	\$ 27,828,153	\$ 25,632,406
Plan fiduciary net position as a percentage of total pension liability	66.49%	61.80%	61.66%	65.87%
Covered employee payroll	\$ 11,043,509	\$ 11,365,262	\$ 11,515,311	\$ 11,524,569
Net pension liability as a percentage of covered employee payroll	206.68%	230.11%	241.66%	222.42%

Note: This is a 10-year schedule to be created prospectively commencing with Measurement Year 2014.

City of McAllen, Texas
Required Supplementary Information – (Unaudited)
Firemen's Relief and Retirement Fund
Schedule of Contributions
Last Four Fiscal Years (Previous years unavailable)

Fiscal Year	(1) Actuarial determined contribution	(2) Contribution in relation to the actuarially determined contribution	(3) Contribution excess (deficiency) (2)-(1)	(4) Covered employee payroll	(5) Contributions as a percentage of covered employee payroll (2)/(4)
2014	\$ 1,435,293	\$ 1,435,293	\$ -	\$ 11,043,509	13.00%
2015	1,477,483	1,477,483	-	11,365,262	13.00%
2016	1,554,567	1,554,567	-	11,515,311	13.50%
2017	1,498,194	1,498,194	-	11,524,569	13.00%

Note: This is a 10-year schedule to be created prospectively commencing with Fiscal Year 2014.

Valuation Date: Actuarial determined contribution rates are calculated as of October 1st.

Methods and Assumptions Used to Determine Contribution Rate for 2017:

Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Pay, Open
Remaining Amortization Period	41.4 years
Asset Valuation Method	5 Year smoothed market; 20% soft corridor
Inflation	3.0%
Salary Increases	4.00% to 8.60% including inflation based on service at attained age.
Investment Rate of Return	7.75% per annum, compounded annually
Retirement Age	Experience-based table of rates that are specific to the Firemen's Relief and Retirement Fund
Mortality	Employee and healthy annuitant combined rates from RP-2000 Mortality Table, projected to 2024 using Scale AA, with separate rates for males and females.
Other Information:	There were no benefit changes during the year.

City of McAllen, Texas
Required Supplementary Information – (Unaudited)
Post Employment Benefit Plan
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
10/01/12	\$ -	\$ 7,165,857	\$ 7,165,857	0.0%	\$ 62,616,631	11.4%
10/01/14	-	8,137,801	8,137,801	0.0%	67,484,896	12.1%
10/01/16	-	8,978,891	8,978,891	0.0%	67,161,351	13.4%

Refer to page 94 of the notes to financial statements for the actuarial assumptions of the plan.

This is a "single-employer" plan and no separate financial report is issued by the City.

Non Major Governmental Funds

Special Revenue Funds are used to account for resources allocated to specific purposes. A special revenue fund continues in existence as long as governmental resources are allocated to its specific purposes.

The Hotel Occupancy Tax Fund was established to account for the hotel-motel occupancy tax levied. This tax revenue is allocated to the promotion of tourism and conventions, promotion of the arts, support of convention center and civic center management, and other expenditures.

The Hotel Venue Project Fund was established to account for funding under Ordinance 2012-69 for a 2% Hotel Occupancy tax for a Performing Arts Facility.

The McAllen EB5 Regional Center Fund was established to account for revenues and expenditures to operate an EB-Regional Center under the U.S. Citizenship and Immigration Services (USCIS).

The Tax Increment Reinvestment Zone #1 Fund was established to account for a portion of the revenues derived from property taxes levied by the City and County to facilitate the provision of capital improvements within the zone.

The Parkland Zones Development Fund was established to account for land acquired for future park development.

The Community Development Fund was established to account for receipt and disbursement of Federal Program revenues.

The Miscellaneous Government Grants Fund was established to account for all grant programs applicable to the City for which a separate fund is not established.

The Downtown Services Parking Fund was established to account for revenues and disbursements associated with the activities of vehicular parking in the downtown district.

The PD Seized Fund was established to account for court awarded funds and use for purchase of police department capital assets.

The Texas Anti-Gang Unit Fund was established to account for revenues and expenditures associated with the operations of a new anti-gang unit.

The TTIC Fund was established to account for all expenditures related to the Texas Transnational Intelligence Center, a multiagency crime information center.

The PEG Fund (Public, Educational and Government) was established to account for the revenue and expenditures related to the programming fees provided by various cable subscribers.

The Debt Service Fund was established to retired general government debt.

The Hotel Venue Debt Service Fund was established to retire Certificate of Obligation, Series 2014.

Capital Projects Funds:

The Information Technology Fund was established to account for all expenditures related to the implementation of strategic technology projects.

The Street Improvements Construction Fund was established to account for all expenditures related to the construction of intersections and street improvement projects.

The Sports Facility Construction Fund was established to account for all expenditures related to the construction of 12 fields for youth and adult baseball.

The Performing Arts C.O. Construction Fund was established to account for all expenditures related to the construction of the Performing Arts Center as funded with Certificate of Obligation Series 2014.

The Local Government Finance Corp - TX A&M Construction Fund was established to account for all expenditures related to the Texas A&M University Building Project.

CITY OF McALLEN, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 September 30, 2017

	Special Revenue								
	Hotel Occupancy Tax	Hotel Venue Tax	McAllen EB-5 Regional Center	Park Development	Tax Increment Zone #1	Community Development	Miscellaneous Government Grants	Downtown Services Parking	PD Seized
ASSETS									
Cash	\$ 7,190	\$ -	\$ 129,400	\$ 166,474	\$ 587	\$ -	\$ -	\$ 38,733	\$ 43,258
Certificate of deposit	-	-	-	-	-	-	-	-	-
Investments	4	2,570	143,386	1,810,426	975,639	-	-	281,124	3,605,994
Receivables:									
Accounts	246,988	70,568	-	-	-	-	-	842,715	-
Taxes	-	-	-	-	-	-	-	-	-
Accrued interest	-	-	-	4,370	-	-	-	-	6,944
Other	-	-	-	-	-	-	84,196	300	-
Due from other governments	-	-	-	-	-	282,188	103,499	-	-
Total assets	<u>254,182</u>	<u>73,138</u>	<u>272,786</u>	<u>1,981,270</u>	<u>976,226</u>	<u>282,188</u>	<u>187,695</u>	<u>1,162,872</u>	<u>3,656,196</u>
Total assets	<u>\$ 254,182</u>	<u>\$ 73,138</u>	<u>\$ 272,786</u>	<u>\$ 1,981,270</u>	<u>\$ 976,226</u>	<u>\$ 282,188</u>	<u>\$ 187,695</u>	<u>\$ 1,162,872</u>	<u>\$ 3,656,196</u>
LIABILITIES									
Accounts payable	\$ 72,608	\$ -	\$ -	\$ 19,831	\$ 3,157,833	\$ 161,789	\$ -	\$ 19,844	\$ 89,833
Accrued liabilities	-	-	908	-	-	23,806	-	9,690	87,721
Due to other funds	181,534	-	-	-	-	96,593	168,355	-	-
Other liabilities	-	-	65,000	-	-	-	-	-	-
Total liabilities	<u>254,142</u>	<u>-</u>	<u>65,908</u>	<u>19,831</u>	<u>3,157,833</u>	<u>282,188</u>	<u>168,355</u>	<u>29,534</u>	<u>177,554</u>
Deferred inflows of resources	-	-	-	-	-	-	-	842,715	-
Total liabilities and deferred inflows of resources	<u>254,142</u>	<u>-</u>	<u>65,908</u>	<u>19,831</u>	<u>3,157,833</u>	<u>282,188</u>	<u>168,355</u>	<u>872,249</u>	<u>177,554</u>
FUND BALANCES									
Restricted	40	73,138	206,878	1,961,439	(2,181,607)	-	19,340	-	3,478,642
Committed	-	-	-	-	-	-	-	290,623	-
Assigned	-	-	-	-	-	-	-	-	-
Total fund balances	<u>40</u>	<u>73,138</u>	<u>206,878</u>	<u>1,961,439</u>	<u>(2,181,607)</u>	<u>-</u>	<u>19,340</u>	<u>290,623</u>	<u>3,478,642</u>
Total liabilities and fund balances	<u>\$ 254,182</u>	<u>\$ 73,138</u>	<u>\$ 272,786</u>	<u>\$ 1,981,270</u>	<u>\$ 976,226</u>	<u>\$ 282,188</u>	<u>\$ 187,695</u>	<u>\$ 1,162,872</u>	<u>\$ 3,656,196</u>

Special Revenue				Debt Service			Capital Projects				Local Government Finance Corporation-TX A&M Construction	Total Nonmajor Governmental Funds
TX Anti Gang Unit	Texas Transnational Intelligence Center	Public Education Governmental	Total	Debt Service	Hotel Venue Debt Service	Information Technology	Street Improvements	Performing Arts	Sports Facilities			
\$ -	\$ -	\$ 139,600	\$ 525,242	\$ 37,629	\$ -	\$ 20,583	\$ 4,793	\$ 6,470	\$ 9,682	\$ 4,253	\$ 608,652	
-	-	-	-	-	-	-	4,243,600	-	4,048,800	-	8,292,400	
125	713,369	726,458	8,259,095	2,333,278	-	175,074	6,766,909	1,470,912	7,736,500	10,043,499	36,785,267	
-	-	-	1,160,271	-	-	-	-	-	-	-	1,160,271	
-	-	-	-	253,624	-	-	-	-	-	-	253,624	
-	-	898	12,212	-	-	-	1,519	-	2,394	-	16,125	
-	-	-	84,496	-	-	-	-	-	-	-	84,496	
1,912,227	-	-	2,297,914	-	-	-	-	-	93,231	-	2,391,145	
1,912,352	713,369	866,956	12,339,230	2,624,531	-	195,657	11,016,821	1,477,382	11,890,607	10,047,752	49,591,980	
<u>\$ 1,912,352</u>	<u>\$ 713,369</u>	<u>\$ 866,956</u>	<u>\$ 12,339,230</u>	<u>\$ 2,624,531</u>	<u>\$ -</u>	<u>\$ 195,657</u>	<u>\$ 11,016,821</u>	<u>\$ 1,477,382</u>	<u>\$ 11,890,607</u>	<u>\$ 10,047,752</u>	<u>\$ 49,591,980</u>	
\$ 405,707	\$ 250,501	\$ -	\$ 4,177,946	\$ -	\$ -	\$ -	\$ 189,272	\$ 229,287	\$ 1,093,026	\$ -	\$ 5,689,531	
86,549	37,650	-	246,324	-	-	-	-	489,132	154,185	-	889,641	
1,504,420	1,418	-	1,952,320	-	-	-	-	-	-	-	1,952,320	
-	-	-	65,000	-	-	-	-	-	-	-	65,000	
1,996,676	289,569	-	6,441,590	-	-	-	189,272	718,419	1,247,211	-	8,596,492	
-	409,431	-	1,252,146	253,624	-	-	-	-	-	-	1,505,770	
1,996,676	699,000	-	7,693,736	253,624	-	-	189,272	718,419	1,247,211	-	10,102,262	
(84,324)	14,369	866,956	4,354,871	2,370,907	-	-	10,827,549	758,963	10,643,396	10,047,752	39,003,438	
-	-	-	290,623	-	-	-	-	-	-	-	290,623	
-	-	-	-	-	-	195,657	-	-	-	-	195,657	
(84,324)	14,369	866,956	4,645,494	2,370,907	-	195,657	10,827,549	758,963	10,643,396	10,047,752	39,489,718	
<u>\$ 1,912,352</u>	<u>\$ 713,369</u>	<u>\$ 866,956</u>	<u>\$ 12,339,230</u>	<u>\$ 2,624,531</u>	<u>\$ -</u>	<u>\$ 195,657</u>	<u>\$ 11,016,821</u>	<u>\$ 1,477,382</u>	<u>\$ 11,890,607</u>	<u>\$ 10,047,752</u>	<u>\$ 49,591,980</u>	

CITY OF McALLEN, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2017

	Special Revenue								
	Hotel Occupancy Tax	Hotel Venue Tax	McAllen EB-5 Regional Center	Park Development	Tax Increment Zone #1	Community Development	Miscellaneous Government Grants	Downtown Services Parking	PD Seized
REVENUES									
Hotel taxes	\$ 3,845,906	\$ 1,100,250	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Property taxes	-	-	-	-	-	-	-	-	-
Franchise taxes	-	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	15,904	-
Intergovernmental	-	-	-	-	-	1,604,533	363,659	-	-
Charges for services	-	-	2	-	-	-	-	1,108,958	-
Fines and forfeitures	-	-	-	-	-	-	-	142,212	342,371
Investment earnings	-	124	701	16,839	67,908	-	-	2,921	41,783
Net increase (decrease) in the fair value of investments	-	-	-	(4,090)	-	-	-	-	-
Other	-	-	40,000	317,808	1,059,366	55,102	200,539	5,128	-
Total revenues	3,845,906	1,100,374	40,703	330,557	1,127,274	1,659,635	564,198	1,275,123	384,154
EXPENDITURES									
Current:									
General government	1,169,184	-	32,515	-	18,312,947	299,785	-	-	-
Public safety	-	-	-	-	-	-	521,773	-	2,526,977
Highways and streets	-	-	-	-	-	388,532	-	1,038,704	-
Health and welfare	-	-	-	-	-	861,331	-	-	-
Culture and recreation	-	-	-	98,349	-	109,987	39,679	-	-
Debt service:									
Principal	-	-	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	1,050,795	-	-	-	-
Total expenditures	1,169,184	-	32,515	98,349	19,363,742	1,659,635	561,452	1,038,704	2,526,977
Excess (deficiency) of revenues over (under) expenditures	2,676,722	1,100,374	8,188	232,208	(18,236,468)	-	2,746	236,419	(2,142,823)
OTHER FINANCING SOURCES (USES)									
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	(2,701,613)	(1,126,806)	-	-	-	-	-	(242,941)	-
Debt issuance	-	-	-	-	-	-	-	-	-
Bond premium	-	-	-	-	-	-	-	-	-
Net other financing sources (uses)	(2,701,613)	(1,126,806)	-	-	-	-	-	(242,941)	-
Net change in fund balances	(24,891)	(26,432)	8,188	232,208	(18,236,468)	-	2,746	(6,522)	(2,142,823)
Fund balances at beginning of year	24,931	99,570	198,690	1,729,231	16,054,861	-	16,594	297,145	5,621,465
Fund balances at end of year	\$ 40	\$ 73,138	\$ 206,878	\$ 1,961,439	\$ (2,181,607)	\$ -	\$ 19,340	\$ 290,623	\$ 3,478,642

Special Revenue				Debt Service			Capital Projects					Total Nonmajor Governmental Funds	
TX Anti Gang Unit	Texas Transnational Intelligence Center	Public Education Government	Total	Debt Service	Hotel Venue Debt Service	Local Govt Finance Corp Debt Service Fund	Information Technology	Street Improvements	Performing Arts	Sports Facilities	Local Government Finance Corporation-TX A&M Construction		
\$ -	\$ -	\$ -	\$ 4,946,156	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,946,156
-	-	-	-	4,434,151	-	-	-	-	-	-	-	-	4,434,151
-	-	186,662	186,662	-	-	-	-	-	-	-	-	-	186,662
-	-	-	15,904	-	-	-	-	-	-	-	-	-	15,904
2,340,294	2,021,381	-	6,329,867	-	-	-	-	-	-	365,607	-	-	6,695,474
-	-	-	1,108,960	-	-	-	-	-	-	-	-	-	1,108,960
-	-	-	484,583	-	-	-	-	-	-	-	-	-	484,583
2,225	14,368	7,290	154,159	29,895	-	-	2,350	116,740	37,892	132,633	12,477	-	486,146
-	-	-	(4,090)	-	-	-	-	-	-	-	-	-	(4,090)
-	-	-	1,677,943	-	-	-	49,369	-	-	-	-	4,253	1,731,565
2,342,519	2,035,749	193,952	14,900,144	4,464,046	-	-	51,719	116,740	37,892	498,240	16,730	-	20,085,511
-	-	4,786	19,819,217	-	-	-	148,392	-	-	-	876,233	-	20,843,842
2,426,843	2,021,380	-	7,496,973	-	-	-	-	-	-	-	-	-	7,496,973
-	-	-	1,427,236	-	-	-	-	2,285,857	-	-	-	-	3,713,093
-	-	-	861,331	-	-	-	-	-	-	-	-	-	861,331
-	-	-	248,015	-	-	-	-	-	4,579,148	3,851,773	-	-	8,678,936
-	-	-	-	4,385,000	445,000	-	-	-	-	-	-	-	4,830,000
-	-	-	1,050,795	2,049,468	410,925	208,332	-	-	-	-	-	-	3,719,520
2,426,843	2,021,380	4,786	30,903,567	6,434,468	855,925	208,332	148,392	2,285,857	4,579,148	3,851,773	876,233	-	50,143,695
(84,324)	14,369	189,166	(16,003,423)	(1,970,422)	(855,925)	(208,332)	(96,673)	(2,169,117)	(4,541,256)	(3,353,533)	(859,503)	-	(30,058,184)
-	-	-	-	3,289,150	855,925	208,332	-	-	16,392	-	-	-	4,369,799
-	-	-	(4,071,360)	-	-	-	-	-	-	-	-	(208,332)	(4,279,692)
-	-	-	-	-	-	-	-	-	-	-	-	10,670,000	10,670,000
-	-	-	-	-	-	-	-	-	-	-	-	445,587	445,587
-	-	-	(4,071,360)	3,289,150	855,925	208,332	-	-	16,392	-	-	10,907,255	11,205,694
(84,324)	14,369	189,166	(20,074,783)	1,318,728	-	-	(96,673)	(2,169,117)	(4,524,864)	(3,353,533)	10,047,752	-	(18,852,490)
-	-	677,790	24,720,277	1,052,179	-	-	292,330	12,996,666	5,283,827	13,996,929	-	-	58,342,208
\$ (84,324)	\$ 14,369	\$ 866,956	\$ 4,645,494	\$ 2,370,907	\$ -	\$ -	\$ 195,657	\$ 10,827,549	\$ 758,963	\$ 10,643,396	\$ 10,047,752	\$ -	\$ 39,489,718

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Non Major Enterprise Funds

These funds are used to account for City operations that are financed and/or operated in a manner similar to private business enterprises. Included in this category are: Palm View Golf Course; Civic Center; McAllen Express; and Transit Terminal.

The Palm View Golf Course Fund is utilized to account for the operations of the City's golf course.

The Civic Center Fund is utilized to account for the operations of a cultural center.

The McAllen Express Fund is utilized to account for the operations of the Bus Transportation System.

The Transit Terminal Fund is utilized to account for the operations of the Intermodal Transportation System.

CITY OF McALLEN , TEXAS
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF NET POSITION
September 30, 2017

	<u>Palm View Golf Course</u>	<u>Civic Center</u>	<u>McAllen Express Transit</u>	<u>Transit Terminal</u>	<u>Total</u>
ASSETS					
Current assets:					
Cash	\$ 70,162	\$ -	\$ 35,087	\$ 55,927	\$ 161,176
Investments	711,713	-	452,561	841,975	2,006,249
Receivables, net:					
Accounts	526	-	12,404	10,204	23,134
Accrued interest	1,875	-	104	-	1,979
Due from other governments	-	-	391,170	492,163	883,333
	<u>784,276</u>	<u>-</u>	<u>891,326</u>	<u>1,400,269</u>	<u>3,075,871</u>
Total currents assets					
Restricted assets:					
Cash	3,469	-	-	-	3,469
Accrued interest	898	-	-	-	898
Investments	364,840	-	-	-	364,840
	<u>369,207</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>369,207</u>
Total restricted assets					
Capital assets:					
Land	187,995	-	-	1,684,593	1,872,588
Buildings and systems	228,345	-	-	5,602,219	5,830,564
Improvements other than buildings	7,874,077	-	489,143	1,521,556	9,884,776
Machinery and equipment	1,411,387	-	5,380,849	4,629,604	11,421,840
Construction in progress	-	-	-	215,325	215,325
	<u>9,701,804</u>	<u>-</u>	<u>5,869,992</u>	<u>13,653,297</u>	<u>29,225,093</u>
Total capital assets	9,701,804	-	5,869,992	13,653,297	29,225,093
Less accumulated depreciation	(6,579,044)	-	(5,002,386)	(4,796,529)	(16,377,959)
	<u>3,122,760</u>	<u>-</u>	<u>867,606</u>	<u>8,856,768</u>	<u>12,847,134</u>
Net capital assets					
	<u>4,276,243</u>	<u>-</u>	<u>1,758,932</u>	<u>10,257,037</u>	<u>16,292,212</u>
Total assets					
Deferred outflows of resources-pensions	171,778	-	410,728	47,126	629,632
	<u>4,448,021</u>	<u>-</u>	<u>2,169,660</u>	<u>10,304,163</u>	<u>16,921,844</u>
Total assets and deferred outflows of resources					

CITY OF McALLEN , TEXAS
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF NET POSITION
September 30, 2017

	<u>Palm View Golf Course</u>	<u>Civic Center</u>	<u>McAllen Express Transit</u>	<u>Transit Terminal</u>	<u>Total</u>
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 59,294	\$ -	\$ 70,793	\$ 146,017	\$ 276,104
Accrued expenses	11,553	-	26,244	18,752	56,549
Compensated absences	17,259	-	-	6,359	23,618
Other	-	-	5	-	5
Total current liabilities	<u>88,106</u>	<u>-</u>	<u>97,042</u>	<u>171,128</u>	<u>356,276</u>
Liabilities(payable from restricted assets):					
Accounts payable	<u>99,206</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>99,206</u>
Total liabilities(payable from restricted assets)	<u>99,206</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>99,206</u>
Other noncurrent liabilities:					
Unearned revenues	60,512	-	40,000	-	100,512
Compensated absences	83,510	-	77,996	-	161,506
Net pension liability	<u>231,817</u>	<u>-</u>	<u>559,470</u>	<u>61,352</u>	<u>852,639</u>
Total other noncurrent liabilities	<u>375,839</u>	<u>-</u>	<u>677,466</u>	<u>61,352</u>	<u>1,114,657</u>
Total liabilities	<u>563,151</u>	<u>-</u>	<u>774,508</u>	<u>232,480</u>	<u>1,570,139</u>
Deferred inflows of resources- pensions	<u>120</u>	<u>-</u>	<u>289</u>	<u>32</u>	<u>441</u>
Total liabilities and deferred inflows of resources	<u>\$ 563,271</u>	<u>\$ -</u>	<u>\$ 774,797</u>	<u>\$ 232,512</u>	<u>\$ 1,570,580</u>
NET POSITION					
Net investment in capital assets	3,122,760	-	867,606	8,856,768	12,847,134
Unrestricted	<u>761,990</u>	<u>-</u>	<u>527,257</u>	<u>1,214,883</u>	<u>2,504,130</u>
Total net position	<u>3,884,750</u>	<u>-</u>	<u>1,394,863</u>	<u>10,071,651</u>	<u>15,351,264</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 4,448,021</u>	<u>\$ -</u>	<u>\$ 2,169,660</u>	<u>\$ 10,304,163</u>	<u>\$ 16,921,844</u>

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

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CITY OF McALLEN , TEXAS
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Year Ended September 30, 2017

	<u>Palm View Golf Course</u>	<u>Civic Center</u>	<u>McAllen Express Transit</u>	<u>Transit Terminal</u>	<u>Total</u>
Operating revenues:					
Charges for services	\$ 841,244	\$ -	\$ 546,642	\$ -	\$ 1,387,886
Rentals	-	-	333,052	-	333,052
Other	295,556	-	58,758	57,580	411,894
Total operating revenues	<u>1,136,800</u>	<u>-</u>	<u>938,452</u>	<u>57,580</u>	<u>2,132,832</u>
Operating expenses:					
Salaries, wages and employee benefits	777,212	-	2,068,118	260,280	3,105,610
Supplies	124,479	-	40,207	74	164,760
Contractual and other services	141,435	154	716,859	165,189	1,023,637
Repairs and maintenance	86,988	-	395,543	342,146	824,677
Depreciation and amortization	304,155	-	571,794	914,543	1,790,492
Total operating expenses	<u>1,434,269</u>	<u>154</u>	<u>3,792,521</u>	<u>1,682,232</u>	<u>6,909,176</u>
Operating loss	<u>(297,469)</u>	<u>(154)</u>	<u>(2,854,069)</u>	<u>(1,624,652)</u>	<u>(4,776,344)</u>
Nonoperating revenues:					
Investment earnings	12,246	266	5,804	13,589	31,905
Net increase (decrease) in the fair value of investments	(1,948)	-	(2,274)	(858)	(5,080)
Other	(7,514)	-	-	-	(7,514)
Nonoperating revenues	<u>2,784</u>	<u>266</u>	<u>3,530</u>	<u>12,731</u>	<u>19,311</u>
Income (Loss) before contributions and transfers	(294,685)	112	(2,850,539)	(1,611,921)	(4,757,033)
Capital contributions	234,731	-	1,376,065	812,126	2,422,922
Transfers in	-	-	803,373	209,457	1,012,830
Transfers out	(4,065)	(339,953)	(10,319)	(354,279)	(708,616)
Change in net position	(64,019)	(339,841)	(681,420)	(944,617)	(2,029,897)
Total net position--beginning	<u>3,948,769</u>	<u>339,841</u>	<u>2,076,283</u>	<u>11,016,268</u>	<u>17,381,161</u>
Total net position--ending	<u>\$ 3,884,750</u>	<u>\$ -</u>	<u>\$ 1,394,863</u>	<u>\$ 10,071,651</u>	<u>\$ 15,351,264</u>

**CITY OF McALLEN, TEXAS
NON-MAJOR ENTERPRISE FUNDS
STATEMENT OF CASH FLOW
For the Year Ended September 30, 2017**

	Palm View Golf Course	McAllen International Civic Center	McAllen Express Transit	Transit Terminal	Total
Cash flows from operating activities:					
Receipts from customers	\$ 1,117,614	\$ -	\$ 940,792	\$ 47,376	\$ 2,105,782
Payments to employees	(720,536)	-	(1,974,674)	(247,338)	(2,942,548)
Payments to suppliers	(232,263)	(9,436)	(1,117,662)	(417,421)	(1,776,782)
Net cash provided (used) by operating activities	164,815	(9,436)	(2,151,544)	(617,383)	(2,613,548)
Cash flows from noncapital financing activities:					
Transfers from other funds	-	-	803,373	209,457	1,012,830
Transfers to other funds	(4,065)	(339,953)	(10,319)	(354,279)	(708,616)
Subsidy from federal grant	-	-	-	463,681	463,681
Net cash provided (used) by noncapital financing activities	(4,065)	(339,953)	793,054	318,859	767,895
Cash flows from capital and related financing activities:					
Capital contributions	-	-	1,144,374	29,232	1,173,606
Payments for capital acquisitions	(163,689)	-	-	(427,950)	(591,639)
Proceeds from sale of capital assets	4,665	-	-	-	4,665
Cash provided (used) by capital and related financing activities	(159,024)	-	1,144,374	(398,718)	586,632
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	1,554,146	349,390	1,157,653	1,948,542	5,009,731
Purchase of investments	(1,514,869)	(267)	(930,574)	(1,369,632)	(3,815,342)
Receipt of interest	8,836	266	3,548	13,040	25,690
Net cash provided by investing activities	48,113	349,389	230,627	591,950	1,220,079
Net increase (decrease) in cash	49,839	-	16,511	(105,292)	(38,942)
Cash at beginning of year	23,792	-	18,576	161,219	203,587
Cash at end of year	\$ 73,631	\$ -	\$ 35,087	\$ 55,927	\$ 164,645

Continued

**CITY OF McALLEN, TEXAS
NON-MAJOR ENTERPRISE FUNDS
STATEMENT OF CASH FLOW
For the Year Ended September 30, 2017**

	<u>Palm View Golf Course</u>	<u>McAllen International Civic Center</u>	<u>McAllen Express Transit</u>	<u>Transit Terminal</u>	<u>Total</u>
Reconciliation of operating loss to net cash provided by operating activities					
Operating income (loss)	\$ (297,469)	\$ (154)	\$(2,854,069)	\$ (1,624,652)	\$(4,776,344)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	304,155	-	571,794	914,543	1,790,492
(Increase) decrease in deferred outflows of resources - pension	33,234	-	84,092	7,114	124,440
Increase (decrease) in deferred inflow of resources -pension	120	-	289	32	441
(Increase) decrease in accounts receivable	(500)	-	2,340	(10,204)	(8,364)
Increase (decrease) in accounts payable	120,639	(89)	34,952	74,247	229,749
Increase (decrease) in compensated absences payable	12,596	-	(14,305)	3,322	1,613
Increase (decrease) in accrued liabilities	2,733	-	4,124	16,077	22,934
Increase (decrease) in due to other funds	-	(9,193)	-	-	(9,193)
Increase (decrease) net pension liability	7,993	-	19,239	2,138	29,370
Increase (decrease) in unearned revenue	(18,686)	-	-	-	(18,686)
Total adjustments	462,284	(9,282)	702,525	1,007,269	2,162,796
Net cash provided (used) by operating activities	<u>\$ 164,815</u>	<u>\$ (9,436)</u>	<u>\$(2,151,544)</u>	<u>\$ (617,383)</u>	<u>\$(2,613,548)</u>
Noncash investing, capital and financing activities:					
Contributions of capital assets	234,731	-	-	-	234,731
Increase (decrease) in fair value of investments	(1,948)	-	(2,274)	(858)	(5,080)

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Internal Service Funds

The **Internal Service Funds** were established to finance and account for services, materials, and supplies furnished to the various departments of the City, and on a limited basis, to other local governmental agencies. These services are provided on a cost reimbursement basis.

The **Fleet Materials Management Fund** sales and services are accounted for in two Interdepartmental Service Fund departments: Fleet Operations and Materials Management.

The **Employee Benefits Fund** was established to account for all expenses related to health insurance premiums and claims for City employees. Primary funding sources are transfers in from General Fund and Enterprise Funds.

The **Retiree Health Insurance Fund** was established to account for all expenses related to health insurance premiums and claims for retired City employees.

The **Risk Management Fund** was established to account for all expenses related to workmen's compensation claims and general liability insurance. Primary funding sources are transfers in from General Fund and Enterprise Funds.

The **Property & Casualty Insurance Fund** was established to account for all expenses related to general liability insurance personal and property claims. Primary funding sources are transfers in from General Fund and Enterprise Funds.

The **General Depreciation Fund** which was established for the sole purpose of replacing fixed assets of the General Fund. Funding has been provided by a rental charge to the appropriate department in the General Fund

CITY OF McALLEN, TEXAS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
September 30, 2017

	Fleet Materials Management	Employee Benefits	Retiree Health Insurance
ASSETS			
Current assets:			
Cash	\$ 221,072	\$ 28,513	\$ 14,173
Investments	-	191	738,696
Receivables, net:			
Accounts	252,273	117,656	-
Accrued interest	-	-	208
Due from other funds	517,893	-	-
Due from other governments	-	-	-
Interfund loan	-	-	-
Prepaid items	-	-	-
Other	-	299,418	-
Inventories	344,202	-	-
Total current assets	<u>1,335,440</u>	<u>445,778</u>	<u>753,077</u>
Capital assets			
Land	-	-	-
Improvement other than buildings	132,823	-	-
Machinery and equipment	842,422	40,998	-
Less accumulated depreciation	<u>(701,378)</u>	<u>(31,619)</u>	<u>-</u>
Net capital assets	<u>273,867</u>	<u>9,379</u>	<u>-</u>
Total assets	<u>\$ 1,609,307</u>	<u>\$ 455,157</u>	<u>\$ 753,077</u>
Deferred outflows of resources-pension	<u>236,082</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 1,845,389</u>	<u>\$ 455,157</u>	<u>\$ 753,077</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 207,960	\$ 154,139	\$ 12,343
Accrued expense	13,378	1,011,441	240,000
Due to other funds	-	517,893	-
Compensated absences	<u>38,953</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>260,291</u>	<u>1,683,473</u>	<u>252,343</u>
Other non-current liabilities:			
Net pension liability	310,298	-	-
Accumulated unpaid compensated absences	<u>-</u>	<u>12,599</u>	<u>-</u>
Total other non-current liabilities	<u>310,298</u>	<u>12,599</u>	<u>-</u>
Total liabilities	<u>570,589</u>	<u>1,696,072</u>	<u>252,343</u>
Deferred inflows of resources-pension	<u>162</u>	<u>-</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>570,751</u>	<u>1,696,072</u>	<u>252,343</u>
NET POSITION			
Net investment in capital assets	273,867	9,379	-
Unrestricted	<u>1,000,771</u>	<u>(1,250,294)</u>	<u>500,734</u>
Total net position	<u>1,274,638</u>	<u>(1,240,915)</u>	<u>500,734</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,845,389</u>	<u>\$ 455,157</u>	<u>\$ 753,077</u>

Risk Management	Property & Casualty Insurance	General Depreciation	Total
\$ 326,009	\$ 47,612	\$ 50,530	\$ 687,909
10,253,971	-	7,777,818	18,770,676
127,738	-	-	497,667
30,812	-	21,528	52,548
-	-	-	517,893
16,265	-	-	16,265
1,749,785	-	1,749,785	3,499,570
480	-	760,904	761,384
-	-	-	299,418
-	-	-	344,202
<u>12,505,060</u>	<u>47,612</u>	<u>10,360,565</u>	<u>25,447,532</u>
2,158,303	-	4,616,430	6,774,733
-	-	-	132,823
43,416	-	25,325,653	26,252,489
(22,093)	-	(18,743,176)	(19,498,266)
<u>2,179,626</u>	<u>-</u>	<u>11,198,907</u>	<u>13,661,779</u>
\$ <u>14,684,686</u>	\$ <u>47,612</u>	\$ <u>21,559,472</u>	\$ <u>39,109,311</u>
-	-	-	236,082
\$ <u>14,684,686</u>	\$ <u>47,612</u>	\$ <u>21,559,472</u>	\$ <u>39,345,393</u>
\$ 65,301	\$ 2,652	\$ 249,176	\$ 691,571
521,008	53,225	-	1,839,052
-	-	-	517,893
-	-	-	38,953
<u>586,309</u>	<u>55,877</u>	<u>249,176</u>	<u>3,087,469</u>
-	-	-	310,298
7,726	915	-	21,240
<u>7,726</u>	<u>915</u>	<u>-</u>	<u>331,538</u>
<u>594,035</u>	<u>56,792</u>	<u>249,176</u>	<u>3,419,007</u>
-	-	-	162
<u>594,035</u>	<u>56,792</u>	<u>249,176</u>	<u>3,419,169</u>
2,179,626	-	11,198,907	13,661,779
11,911,025	(9,180)	10,111,389	22,264,445
<u>14,090,651</u>	<u>(9,180)</u>	<u>21,310,296</u>	<u>35,926,224</u>
\$ <u>14,684,686</u>	\$ <u>47,612</u>	\$ <u>21,559,472</u>	\$ <u>39,345,393</u>

CITY OF McALLEN, TEXAS
INTERNAL SERVICE FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Year Ended September 30, 2017

	<u>Fleet Materials Management</u>	<u>Employee Benefits</u>	<u>Retiree Health Insurance</u>
Operating revenues:			
Charges for services	\$ 3,956,043	\$ -	\$ -
Contributions	<u>-</u>	<u>9,998,757</u>	<u>605,850</u>
Total operating revenues	<u>3,956,043</u>	<u>9,998,757</u>	<u>605,850</u>
Operating expenses:			
Salaries, wages and employee benefits	1,056,067	319,112	-
Supplies and materials	23,533	3,606	-
Contractual and other services	2,806,111	1,872,087	112,544
Repairs and maintenance	47,928	-	-
Depreciation and amortization	66,461	8,200	-
Self insurance claims	<u>-</u>	<u>11,610,788</u>	<u>656,134</u>
Total operating expenses	<u>4,000,100</u>	<u>13,813,793</u>	<u>768,678</u>
Operating income (loss)	<u>(44,057)</u>	<u>(3,815,036)</u>	<u>(162,828)</u>
Non operating revenues (expenses):			
Intergovernmental	-	-	-
Investment earnings	-	10,640	10,632
Net increase (decrease) in fair value of investments	-	-	(4,548)
Other	<u>40,569</u>	<u>1,333,263</u>	<u>-</u>
Net non-operating revenues (expenses)	<u>40,569</u>	<u>1,343,903</u>	<u>6,084</u>
Income (loss) before contributions and transfers	(3,488)	(2,471,133)	(156,744)
Transfers in	-	2,322,311	-
Transfers out	<u>(6,567)</u>	<u>-</u>	<u>-</u>
Change in net position	(10,055)	(148,822)	(156,744)
Total net position--beginning	<u>1,284,693</u>	<u>(1,092,093)</u>	<u>657,478</u>
Total net position--ending	<u>\$ 1,274,638</u>	<u>\$ (1,240,915)</u>	<u>\$ 500,734</u>

Risk Management	Property & Casualty Insurance	General Depreciation	Total
\$ -	\$ -	\$ 2,814,072	\$ 6,770,115
2,629,339	815,730	-	14,049,676
<u>2,629,339</u>	<u>815,730</u>	<u>2,814,072</u>	<u>20,819,791</u>
268,211	62,005	-	1,705,395
3,875	1,766	-	32,780
1,185,757	484,831	-	6,461,330
402	108	-	48,438
3,604	-	2,140,551	2,218,816
77,037	357,374	-	12,701,333
<u>1,538,886</u>	<u>906,084</u>	<u>2,140,551</u>	<u>23,168,092</u>
<u>1,090,453</u>	<u>(90,354)</u>	<u>673,521</u>	<u>(2,348,301)</u>
16,265	-	-	16,265
161,257	-	204,324	386,853
(32,405)	-	(23,882)	(60,835)
115,354	81,174	89,864	1,660,224
<u>260,471</u>	<u>81,174</u>	<u>270,306</u>	<u>2,002,507</u>
1,350,924	(9,180)	943,827	(345,794)
-	-	-	2,322,311
(1,500,000)	-	-	(1,506,567)
(149,076)	(9,180)	943,827	469,950
<u>14,239,727</u>	<u>-</u>	<u>20,366,469</u>	<u>35,456,274</u>
<u>\$ 14,090,651</u>	<u>\$ (9,180)</u>	<u>\$ 21,310,296</u>	<u>\$ 35,926,224</u>

CITY OF McALLEN, TEXAS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2017

	Fleet Materials Management	Employee Benefits
Cash flows from operating activities:		
Receipts from customers	\$ 3,508,582	\$ 9,945,913
Payments to employees	(1,004,159)	(320,214)
Payments to suppliers	(2,886,987)	(13,046,645)
Net cash provided (used) by operating activities	(382,564)	(3,420,946)
Cash flows from non-capital financing activities:		
Transfer from other funds	-	2,309,357
Transfer to other funds	(6,567)	-
Subsidy from federal grant	-	-
Other revenue received	40,569	339,912
Cash provided (used) by non-capital financing activities	34,002	2,649,269
Cash flows from capital and related financing activities:		
Payments for capital acquisitions	(3,364)	-
Proceeds from sale of capital assets	-	-
Net cash provided (used) by capital and related financing activities	(3,364)	-
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	-	6,460,421
Purchase of investments	-	(5,781,749)
Receipt of interest	-	12,390
Net cash provided (used) by investing activities	-	691,062
Net increase (decrease) in cash	(351,926)	(80,615)
Cash at beginning of year	572,998	109,128
Cash at end of year	\$ 221,072	\$ 28,513

<u>Retiree Health Insurance</u>	<u>Risk Management</u>	<u>Property & Casualty Insurance</u>	<u>General Depreciation</u>	<u>Totals</u>
\$ 605,850	\$ 2,629,339	\$ 883,431	\$ 2,814,072	\$ 20,387,187
-	(270,674)	(61,710)	-	(1,656,757)
<u>(765,027)</u>	<u>(1,218,097)</u>	<u>(847,366)</u>	<u>(649,762)</u>	<u>(19,413,884)</u>
<u>(159,177)</u>	<u>1,140,568</u>	<u>(25,645)</u>	<u>2,164,310</u>	<u>(683,454)</u>
-	436,495	-	436,495	3,182,347
-	(1,500,000)	-	-	(1,506,567)
-	12,309	-	-	12,309
-	117,969	471	-	498,921
<u>-</u>	<u>(933,227)</u>	<u>471</u>	<u>436,495</u>	<u>2,187,010</u>
-	-	-	(1,091,141)	(1,094,505)
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,459,355</u>	<u>1,459,355</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>368,214</u>	<u>364,850</u>
1,381,211	9,174,883	-	9,562,165	26,578,680
(1,218,548)	(9,547,087)	-	(12,656,686)	(29,204,070)
<u>6,119</u>	<u>122,871</u>	<u>-</u>	<u>176,032</u>	<u>317,412</u>
<u>168,782</u>	<u>(249,333)</u>	<u>-</u>	<u>(2,918,489)</u>	<u>(2,307,978)</u>
9,605	(41,992)	(25,174)	50,530	(439,572)
<u>4,568</u>	<u>368,001</u>	<u>72,786</u>	<u>-</u>	<u>1,127,481</u>
<u>\$ 14,173</u>	<u>\$ 326,009</u>	<u>\$ 47,612</u>	<u>\$ 50,530</u>	<u>\$ 687,909</u>

Continued

CITY OF McALLEN, TEXAS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2017

	Fleet Materials Management	Employee Benefits
Operating (loss) income	\$ (44,057)	\$ (3,815,036)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	66,461	8,200
(Increase) decrease in deferred outflows of resources - pension	38,272	-
Increase (decrease) in deferred inflows of resources -pension	162	-
(Increase) decrease in accounts receivable	70,432	(52,844)
(Increase) decrease in due from other funds	(517,893)	-
(Increase) decrease in prepaid items	-	-
(Increase) decrease in inventories	19,357	-
Increase (decrease) in accounts payable	(28,772)	(78,057)
Increase (decrease) in compensated absences payable	4,370	(1,357)
Increase (decrease) in accrued liabilities	(1,677)	255
Increase (decrease) in due to other funds	-	517,893
Increase (decrease) in net pension liability	10,781	-
Total adjustments	(338,507)	394,090
Net cash provided (used) by operating activities	\$ (382,564)	\$ (3,420,946)
Noncash investing, capital, and financing activities:		
Increase(decrease) in fair value of investments	-	-

Retiree Health Insurance	Risk Management	Property & Casualty Insurance	General Depreciation	Totals
\$ (162,828)	\$ 1,090,453	\$ (90,354)	\$ 673,521	\$ (2,348,301)
-	3,604	-	2,140,551	2,218,816
-	-	-	-	38,272
-	-	-	-	162
-	-	-	-	17,588
-	-	67,701	-	(450,192)
-	(480)	-	(760,904)	(761,384)
-	-	-	249,176	268,533
3,651	3,150	(3,287)	-	(103,315)
-	(889)	295	-	2,419
-	44,730	-	-	43,308
-	-	-	(138,034)	379,859
-	-	-	-	10,781
3,651	50,115	64,709	1,490,789	1,664,847
\$ (159,177)	\$ 1,140,568	\$ (25,645)	\$ 2,164,310	\$ (683,454)
(4,548)	(32,405)	-	(23,882)	(60,835)

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Agency Funds

Agency funds are used to account for assets held by the government as an agent for individuals, private organizations, other governments and/or funds.

Agency Fund: - to account for funds which are custodial in nature and for which the City is acting as an agent. The City has established the following agency fund based upon the above definition:

The Developers Fund was established to account for developers' contributions for future infrastructure development.

The Communications Group was established to account for operation and maintenance of a consolidated regional public safety services communications system.

The Payroll Fund was established to account for the processing of employees payroll.

CITY OF McALLEN , TEXAS
COMBINING STATEMENT OF NET POSITION
AGENCY FUNDS
September 30, 2017

	Developers Fund	Communication Group Fund	Payroll Fund	Total
ASSETS				
Cash and cash equivalents	\$ 68,009	\$ 18,008	\$ 222,992	\$ 309,009
Receivables:				
Interest	8,979	-	-	8,979
Other	-	-	7,368	7,368
Investments, at fair value:				
TexPool Prime	765,890	2,932,323	-	3,698,213
US government securities	2,937,669	-	-	2,937,669
Total assets	\$ 3,780,547	\$ 2,950,331	\$ 230,360	\$ 6,961,238
LIABILITIES				
Accounts payable	-	6,907	230,360	237,267
Due agency	-	2,943,424	-	2,943,424
Escrow payables	3,780,547	-	-	3,780,547
Total liabilities	\$ 3,780,547	\$ 2,950,331	\$ 230,360	\$ 6,961,238

**CITY OF McALLEN, TEXAS
AGENCY FUND
DEVELOPER'S FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended September 30, 2017**

	<u>Balance 09/30/16</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>Balance 09/30/17</u>
<u>Assets:</u>				
Cash and equivalents	\$ 18,853	\$ 3,274,646	\$ 3,225,490	\$ 68,009
Investments:				
Tex-pool Prime	1,281,409	1,024,948	1,540,467	765,890
Government securities	2,198,207	1,250,000	510,538	2,937,669
Receivables:				
Accrued interest	4,901	29,254	25,176	8,979
Total current assets	<u>\$ 3,503,370</u>	<u>\$ 5,578,848</u>	<u>\$ 5,301,671</u>	<u>\$ 3,780,547</u>
<u>Liabilities:</u>				
Escrow payables	<u>\$ 3,503,370</u>	<u>\$ 870,026</u>	<u>\$ 592,849</u>	<u>3,780,547</u>
Total liabilities	<u>\$ 3,503,370</u>	<u>\$ 870,026</u>	<u>\$ 592,849</u>	<u>\$ 3,780,547</u>

**CITY OF McALLEN, TEXAS
 AGENCY FUND
 COMMUNICATIONS GROUP
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 Year Ended September 30, 2017**

	<u>Balance 09/30/16</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>Balance 09/30/17</u>
<u>Assets:</u>				
Cash and equivalents	\$ 6,046	\$ 1,636,445	\$ 1,624,483	\$ 18,008
Investments	1,925,073	1,243,725	236,475	2,932,323
Total current assets	<u>\$ 1,931,119</u>	<u>\$ 2,880,170</u>	<u>\$ 1,860,958</u>	<u>\$ 2,950,331</u>
<u>Liabilities:</u>				
Payables	\$ 1,530	\$ 252,638	\$ 247,261	\$ 6,907
Due Agency	1,929,589	1,013,835	-	2,943,424
Total liabilities	<u>\$ 1,931,119</u>	<u>\$ 1,266,473</u>	<u>\$ 247,261</u>	<u>\$ 2,950,331</u>

**CITY OF McALLEN, TEXAS
AGENCY FUND
PAYROLL FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended September 30, 2017**

	Balance 09/30/16	ADDITIONS	DEDUCTIONS	Balance 09/30/17
<u>Assets:</u>				
Cash and equivalents	\$ 277,859	\$ 91,786,046	\$ 91,840,913	\$ 222,992
Receivables:				-
Other	-	7,368	-	7,368
Total current assets	\$ 277,859	\$ 91,793,414	\$ 91,840,913	\$ 230,360
<u>Liabilities:</u>				
Payables	\$ 277,859	\$ 35,003,982	\$ 35,051,481	\$ 230,360
Total liabilities	\$ 277,859	\$ 35,003,982	\$ 35,051,481	\$ 230,360

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Individual Budget Schedules and Other

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Taxes:				
Property	\$ 39,086,058	\$ 39,086,058	\$ 38,414,083	\$ (671,975)
Sales	46,011,201	44,264,359	43,966,165	(298,194)
Franchise	6,477,500	6,577,500	7,509,247	931,747
Total taxes	<u>91,574,759</u>	<u>89,927,917</u>	<u>89,889,495</u>	<u>(38,422)</u>
Licenses and permits:				
Business licenses and permits	55,000	55,000	70,365	15,365
Occupational	339,350	339,350	324,033	(15,317)
Non-business licenses and permits	1,298,780	1,489,780	1,584,645	94,865
Total licenses and permits	<u>1,693,130</u>	<u>1,884,130</u>	<u>1,979,043</u>	<u>94,913</u>
Intergovernmental revenues:				
State shared revenues	834,000	834,000	586,511	(247,489)
Total intergovernmental revenues	<u>834,000</u>	<u>834,000</u>	<u>586,511</u>	<u>(247,489)</u>
Charges for services:				
General government	2,161,750	2,408,873	2,444,973	36,100
Public safety	663,000	897,200	792,454	(104,746)
Highways and streets	-	-	5,949	5,949
Health	708,650	808,650	766,999	(41,651)
Culture and recreation	1,162,200	1,233,904	1,235,219	1,315
Total charges for services	<u>4,695,600</u>	<u>5,348,627</u>	<u>5,245,594</u>	<u>(103,033)</u>
Fines and forfeitures:				
Corporations court	1,400,000	1,200,000	1,261,170	61,170
Other fines	161,538	169,539	42,815	(126,724)
Total fines and forfeitures	<u>1,561,538</u>	<u>1,369,539</u>	<u>1,303,985</u>	<u>(65,554)</u>
Investment earnings	420,000	573,000	666,939	93,939
Net (decrease) in the fair value of investments	\$ -	\$ -	\$ (120,833)	\$ (120,833)
Other:				
Royalties	430,000	430,000	620,011	190,011
Rents and concessions	-	-	5,500	5,500
Reimbursements	350,000	556,729	1,120,780	564,051
Other	28,600	58,600	446,089	387,489
Total other revenues	<u>808,600</u>	<u>1,045,329</u>	<u>2,192,380</u>	<u>1,147,051</u>
Total revenues	<u>101,587,627</u>	<u>100,982,542</u>	<u>101,743,114</u>	<u>760,572</u>

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
EXPENDITURES				
General government:				
City commission:				
Personal services	193,302	193,302	164,444	28,858
Supplies	4,680	4,680	4,255	425
Miscellaneous services	79,980	79,980	58,234	21,746
Capital outlay	-	-	2,376	(2,376)
Total city commission	<u>277,962</u>	<u>277,962</u>	<u>229,309</u>	<u>48,653</u>
Special service:				
Miscellaneous services	787,411	787,411	657,470	129,941
Total special service	<u>787,411</u>	<u>787,411</u>	<u>657,470</u>	<u>129,941</u>
City manager:				
Personal services	1,218,396	1,218,396	1,253,409	(35,013)
Supplies	2,430	2,430	2,756	(326)
Miscellaneous services	87,430	87,430	93,400	(5,970)
Maintenance	1,680	1,680	859	821
Capital outlay	11,445	11,445	1,798	9,647
Total city manager	<u>1,321,381</u>	<u>1,321,381</u>	<u>1,352,222</u>	<u>(30,841)</u>
Budget & management:				
Personal service	356,122	356,122	351,199	4,923
Supplies	6,300	6,300	4,853	1,447
Miscellaneous services	11,950	11,950	8,147	3,803
Maintenance	13,000	13,000	-	13,000
Capital outlay	4,650	4,650	4,728	(78)
Total budget & management	<u>392,022</u>	<u>392,022</u>	<u>368,927</u>	<u>23,095</u>
City secretary:				
Personal services	465,427	465,427	453,800	11,627
Supplies	4,500	4,500	4,485	15
Miscellaneous services	20,366	20,366	21,817	(1,451)
Maintenance	20,780	20,780	19,277	1,503
Total city secretary	<u>511,073</u>	<u>511,073</u>	<u>499,379</u>	<u>11,694</u>
Audit office:				
Personal services	201,621	201,621	198,443	3,178
Supplies	675	675	641	34
Miscellaneous services	13,631	13,631	12,681	950
Total audit office	<u>215,927</u>	<u>215,927</u>	<u>211,765</u>	<u>4,162</u>

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Vital statistics:				
Personal services	141,685	141,685	136,466	5,219
Supplies	9,050	11,313	8,920	2,393
Miscellaneous services	24,158	24,158	16,457	7,701
Total vital statistics	<u>174,893</u>	<u>177,156</u>	<u>161,843</u>	<u>15,313</u>
Passport facility:				
Personal services	84,739	84,739	91,701	(6,962)
Supplies	1,490	1,490	1,490	-
Miscellaneous services	5,870	5,870	6,095	(225)
Maintenance	200	200	21	179
Capital outlay	2,300	2,300	2,285	15
Total passport facility	<u>94,599</u>	<u>94,599</u>	<u>101,592</u>	<u>(6,993)</u>
Municipal court:				
Personal services	1,346,275	1,346,275	1,219,511	126,764
Supplies	8,910	8,910	7,293	1,617
Miscellaneous services	72,562	70,685	46,289	24,396
Maintenance	116,818	116,818	64,590	52,228
Capital outlay	11,766	21,644	16,580	5,064
Total municipal court	<u>1,556,331</u>	<u>1,564,332</u>	<u>1,354,263</u>	<u>210,069</u>
Finance:				
Personal services	1,062,509	1,062,509	1,027,617	34,892
Supplies	18,885	18,885	18,853	32
Miscellaneous services	162,752	162,752	140,148	22,604
Maintenance	23,682	23,682	34,178	(10,496)
Capital outlay	-	-	77	(77)
Total finance	<u>1,267,828</u>	<u>1,267,828</u>	<u>1,220,873</u>	<u>46,955</u>
Tax office:				
Personal services	270,261	270,261	266,086	4,175
Supplies	5,833	5,833	5,240	593
Miscellaneous services	816,042	816,042	759,241	56,801
Maintenance	29,307	29,307	21,450	7,857
Capital outlay	1,700	1,700	578	1,122
Total tax office	<u>1,123,143</u>	<u>1,123,143</u>	<u>1,052,595</u>	<u>70,548</u>

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Purchasing and contracting:				
Personal services	578,892	578,892	481,719	97,173
Supplies	8,060	8,060	8,396	(336)
Miscellaneous services	6,128	6,128	18,000	(11,872)
Maintenance	1,556	1,556	147	1,409
Capital outlay	1,860	1,860	1,698	162
Total purchasing and contracting	596,496	596,496	509,960	86,536
Legal:				
Personal services	1,208,478	1,208,478	1,145,221	63,257
Supplies	5,032	5,032	6,319	(1,287)
Miscellaneous services	448,023	448,023	531,857	(83,834)
Total legal	1,661,533	1,661,533	1,683,397	(21,864)
Grant administration:				
Personal services	402,282	402,282	367,828	34,454
Supplies	17,223	17,223	19,017	(1,794)
Miscellaneous services	58,380	58,380	59,800	(1,420)
Capital outlay	3,550	3,550	3,519	31
Total grant administration	481,435	481,435	450,164	31,271
Human resources:				
Personal services	665,304	665,304	494,337	170,967
Supplies	29,151	29,151	24,977	4,174
Miscellaneous services	127,659	127,659	76,605	51,054
Maintenance	10,000	10,000	211	9,789
Capital outlay	21,250	21,250	3,724	17,526
Total human resources	853,364	853,364	599,854	253,510
Risk management:				
Liability insurance	457,085	457,085	457,085	-
Total risk management	457,085	457,085	457,085	-
Planning:				
Personal services	1,095,642	1,095,642	849,564	246,078
Supplies	21,715	21,715	11,711	10,004
Miscellaneous services	42,309	42,309	33,529	8,780
Maintenance	15,241	15,241	2,079	13,162
Capital outlay	26,400	26,400	-	26,400
Total planning	1,201,307	1,201,307	896,883	304,424

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Information technology:				
Personal services	1,926,190	1,926,190	1,846,711	79,479
Supplies	17,548	17,548	18,105	(557)
Miscellaneous services	237,604	237,604	192,285	45,319
Maintenance	573,529	573,529	560,335	13,194
Capital outlay	481,000	481,000	516,444	(35,444)
Total information technology	<u>3,235,871</u>	<u>3,235,871</u>	<u>3,133,880</u>	<u>101,991</u>
Public information office:				
Personal services	638,583	638,583	602,478	36,105
Supplies	9,950	9,950	6,844	3,106
Miscellaneous services	82,183	82,183	67,615	14,568
Maintenance	14,401	14,401	9,114	5,287
Capital outlay	3,500	3,500	3,352	148
Total public information office	<u>748,617</u>	<u>748,617</u>	<u>689,403</u>	<u>59,214</u>
311 Call center:				
Personal services	236,376	236,376	216,834	19,542
Supplies	1,500	1,500	739	761
Miscellaneous services	-	-	1,435	(1,435)
Capital outlay	1,200	1,200	-	1,200
Total 311 Call center	<u>239,076</u>	<u>239,076</u>	<u>219,008</u>	<u>20,068</u>
City hall:				
Personal services	132,831	132,831	100,693	32,138
Supplies	19,900	19,900	17,062	2,838
Miscellaneous services	314,896	314,896	314,804	92
Maintenance	142,928	142,928	184,184	(41,256)
Total city hall	<u>610,555</u>	<u>610,555</u>	<u>616,743</u>	<u>(6,188)</u>
Development center				
Personal services	34,075	34,075	34,146	(71)
Supplies	14,300	14,300	7,332	6,968
Miscellaneous services	55,200	55,200	53,786	1,414
Maintenance	7,000	7,000	6,126	874
Total development center	<u>110,575</u>	<u>110,575</u>	<u>101,390</u>	<u>9,185</u>
Building maintenance:				
Personal services	647,108	647,108	628,824	18,284
Supplies	18,332	18,332	15,556	2,776
Miscellaneous services	41,425	41,425	38,039	3,386
Maintenance	34,813	34,813	37,833	(3,020)
Capital outlay	14,500	14,500	13,225	1,275
Total building maintenance	<u>756,178</u>	<u>756,178</u>	<u>733,477</u>	<u>22,701</u>

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Economic development:				
McAllen Economic Development Corp.	46,351	89,889	42,997	46,892
Chambers of commerce	644,200	644,200	644,200	-
Total economic development	690,551	734,089	687,197	46,892
Contingency	(1,019,555)	(1,019,555)	-	(1,019,555)
Total general government	18,345,658	18,399,460	17,988,679	410,781
Public safety:				
Police:				
Personal services	29,185,860	29,185,860	29,176,410	9,450
Supplies	396,091	396,091	626,723	(230,632)
Miscellaneous services	1,526,518	1,526,518	1,632,491	(105,973)
Maintenance	1,389,939	1,389,939	1,428,005	(38,066)
Capital outlay	380,981	380,981	199,622	181,359
Total police	32,879,389	32,879,389	33,063,251	(183,862)
Animal control:				
Personal services	278,613	278,613	229,532	49,081
Supplies	12,000	12,000	(1,092)	13,092
Miscellaneous services	30,825	30,825	29,010	1,815
Maintenance	37,076	37,076	34,603	2,473
Total animal control	358,514	358,514	292,053	66,461
Radio shop:				
Personal services	237,597	237,597	292,843	(55,246)
Supplies	4,376	4,376	7,213	(2,837)
Miscellaneous services	258,066	258,066	245,326	12,740
Maintenance	3,500	3,500	3,768	(268)
Total communication technology	503,539	503,539	549,150	(45,611)
Fire:				
Personal services	15,032,937	15,163,128	15,826,053	(662,925)
Supplies	281,243	330,743	304,642	26,101
Miscellaneous services	1,295,337	1,245,187	1,260,538	(15,351)
Maintenance	441,615	442,265	816,570	(374,305)
Capital outlay	301,711	301,711	301,946	(235)
Total fire	17,352,843	17,483,034	18,509,749	(1,026,715)
Traffic operations:				
Personal services	1,674,484	1,674,484	1,174,063	500,421
Supplies	111,492	111,492	64,394	47,098
Miscellaneous services	400,570	400,570	379,935	20,635
Maintenance	274,004	274,004	282,587	(8,583)
Capital outlay	46,400	46,400	1,266	45,134
Total traffic operations	2,506,950	2,506,950	1,902,245	604,705

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Building code compliance:				
Personal services	947,472	947,472	920,422	27,050
Supplies	13,687	13,687	7,560	6,127
Miscellaneous services	77,761	77,761	58,923	18,838
Maintenance	13,036	13,036	13,684	(648)
Capital outlay	1,000	1,000	-	1,000
Total building code compliance	<u>1,052,956</u>	<u>1,052,956</u>	<u>1,000,589</u>	<u>52,367</u>
Total public safety	<u>54,654,191</u>	<u>54,784,382</u>	<u>55,317,037</u>	<u>(532,655)</u>
Highways and streets:				
Engineering services:				
Personal services	1,659,208	1,659,208	1,520,781	138,427
Supplies	13,000	13,000	11,585	1,415
Miscellaneous services	132,927	132,927	66,916	66,011
Maintenance	34,610	34,610	36,285	(1,675)
Capital outlay	9,400	9,400	4,124	5,276
Total engineering	<u>1,849,145</u>	<u>1,849,145</u>	<u>1,639,691</u>	<u>209,454</u>
Street cleaning:				
Street maintenance:				
Personal services	1,987,799	1,987,799	1,832,027	155,772
Supplies	29,607	29,607	31,656	(2,049)
Miscellaneous services	342,580	342,580	341,425	1,155
Maintenance	3,857,072	3,857,072	3,451,288	405,784
Capital outlay	-	-	3,383	(3,383)
Total street maintenance	<u>6,217,058</u>	<u>6,217,058</u>	<u>5,659,779</u>	<u>557,279</u>
Street lighting:				
Miscellaneous services	1,904,326	2,406,326	2,411,851	(5,525)
Maintenance	72,675	72,675	57,033	15,642
Total street lighting	<u>1,977,001</u>	<u>2,479,001</u>	<u>2,468,884</u>	<u>10,117</u>
Sidewalk construction:				
Personal services	245,511	245,511	178,448	67,063
Supplies	30,132	30,132	29,343	789
Miscellaneous services	40,408	40,408	40,423	(15)
Maintenance	27,870	27,870	32,028	(4,158)
Total sidewalk construction	<u>343,921</u>	<u>343,921</u>	<u>280,242</u>	<u>63,679</u>

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Drainage:				
Personal services	872,144	872,144	875,623	(3,479)
Supplies	20,052	20,052	17,769	2,283
Miscellaneous services	373,875	373,875	370,952	2,923
Maintenance	224,049	224,049	261,847	(37,798)
Capital outlay	9,000	9,000	6,330	2,670
Total drainage	<u>1,499,120</u>	<u>1,499,120</u>	<u>1,532,521</u>	<u>(33,401)</u>
Total highways and streets	<u>11,886,245</u>	<u>12,388,245</u>	<u>11,581,117</u>	<u>807,128</u>
Health and welfare:				
Health code compliance:				
Personal services	1,069,983	1,069,983	1,025,803	44,180
Supplies	27,995	27,995	30,937	(2,942)
Miscellaneous services	167,554	262,882	287,249	(24,367)
Maintenance	31,721	31,721	60,996	(29,275)
Total health code compliance	<u>1,297,253</u>	<u>1,392,581</u>	<u>1,404,985</u>	<u>(12,404)</u>
Graffiti cleaning:				
Personal services	108,726	108,726	107,406	1,320
Supplies	10,181	10,181	7,900	2,281
Miscellaneous services	14,677	14,677	14,694	(17)
Maintenance	14,739	14,739	23,966	(9,227)
Total graffiti cleaning	<u>148,323</u>	<u>148,323</u>	<u>153,966</u>	<u>(5,643)</u>
Other agencies:				
Humane society	537,662	767,276	770,216	(2,940)
Other health and welfare agencies	30,000	30,000	393,813	(363,813)
Total other agencies	<u>567,662</u>	<u>797,276</u>	<u>1,164,029</u>	<u>(366,753)</u>
Total health and welfare	<u>2,013,238</u>	<u>2,338,180</u>	<u>2,722,980</u>	<u>(384,800)</u>
Culture and recreation:				
Parks and recreation administration:				
Personal services	404,191	404,191	360,469	43,722
Supplies	5,850	5,850	7,251	(1,401)
Miscellaneous services	125,987	125,987	119,681	6,306
Maintenance	22,597	22,597	24,335	(1,738)
Total parks and recreation administration	<u>558,625</u>	<u>558,625</u>	<u>511,736</u>	<u>46,889</u>
Parks:				
Personal services	4,327,031	4,327,031	3,634,544	692,487
Supplies	174,654	174,654	159,323	15,331
Miscellaneous services	2,108,052	2,108,052	2,244,336	(136,284)
Maintenance	471,963	471,963	653,885	(181,922)
Capital outlay	382,950	382,950	310,453	72,497
Total parks	<u>7,464,650</u>	<u>7,464,650</u>	<u>7,002,541</u>	<u>462,109</u>

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Recreation:				
Personal services	1,390,393	1,390,393	1,418,999	(28,606)
Supplies	46,000	46,000	50,887	(4,887)
Miscellaneous services	255,826	255,826	247,453	8,373
Maintenance	13,599	13,599	9,711	3,888
Capital outlay	6,000	6,000	53,997	(47,997)
Total recreation	<u>1,711,818</u>	<u>1,711,818</u>	<u>1,781,047</u>	<u>(69,229)</u>
Pools:				
Personal services	661,766	661,766	597,226	64,540
Supplies	86,800	86,800	71,750	15,050
Miscellaneous services	133,890	133,890	122,264	11,626
Maintenance	60,002	60,002	42,376	17,626
Capital outlay	6,500	6,500	4,420	2,080
Total pools	<u>948,958</u>	<u>948,958</u>	<u>838,036</u>	<u>110,922</u>
Las palmas community center:				
Personal services	254,264	254,264	206,217	48,047
Supplies	12,580	12,580	13,274	(694)
Miscellaneous services	87,890	87,890	85,480	2,410
Maintenance	15,384	15,384	15,728	(344)
Capital outlay	4,550	4,550	9,376	(4,826)
Total las palmas community center	<u>374,668</u>	<u>374,668</u>	<u>330,075</u>	<u>44,593</u>
Recreation center-Lark:				
Personal services	307,759	307,759	273,481	34,278
Supplies	25,530	25,530	18,880	6,650
Miscellaneous services	130,569	130,569	132,828	(2,259)
Maintenance	16,500	16,500	12,843	3,657
Capital outlay	7,750	7,750	3,080	4,670
Total recreation center-Lark	<u>488,108</u>	<u>488,108</u>	<u>441,112</u>	<u>46,996</u>
Recreation center-Palmview:				
Personal services	296,021	296,021	283,443	12,578
Supplies	22,205	22,205	19,632	2,573
Miscellaneous services	130,440	130,440	119,158	11,282
Maintenance	17,000	17,000	15,887	1,113
Total recreation center-Palmview	<u>465,666</u>	<u>465,666</u>	<u>438,120</u>	<u>27,546</u>

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Quinta mazatlan:				
Personal services	661,654	661,654	574,161	87,493
Supplies	47,350	96,018	91,089	4,929
Miscellaneous services	133,525	150,709	178,847	(28,138)
Maintenance	56,669	62,521	63,828	(1,307)
Capital outlay	54,785	54,785	189,990	(135,205)
Total quinta mazatlan	<u>953,983</u>	<u>1,025,687</u>	<u>1,097,915</u>	<u>(72,228)</u>
Library:				
Personal services	2,397,911	2,397,911	2,197,955	199,956
Supplies	96,600	101,600	99,908	1,692
Miscellaneous services	671,858	671,858	711,152	(39,294)
Maintenance	159,901	149,301	129,011	20,290
Capital outlay	186,225	251,825	264,549	(12,724)
Total library	<u>3,512,495</u>	<u>3,572,495</u>	<u>3,402,575</u>	<u>169,920</u>
Library branch-Lark:				
Personal services	436,334	436,334	416,254	20,080
Supplies	9,150	9,150	6,042	3,108
Miscellaneous services	13,293	13,293	11,273	2,020
Maintenance	5,250	5,250	108	5,142
Capital outlay	30,000	40,000	25,784	14,216
Total library branch-Lark	<u>494,027</u>	<u>504,027</u>	<u>459,461</u>	<u>44,566</u>
Library branch-Palmview:				
Personal services	454,039	454,039	416,066	37,973
Supplies	10,200	20,200	14,769	5,431
Miscellaneous services	9,993	9,993	8,478	1,515
Maintenance	5,500	5,500	180	5,320
Capital outlay	30,000	40,000	25,067	14,933
Total library branch-Palmview	<u>509,732</u>	<u>529,732</u>	<u>464,560</u>	<u>65,172</u>
Other agencies	<u>1,088,122</u>	<u>1,088,122</u>	<u>1,088,120</u>	<u>2</u>

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Museums	735,000	735,000	735,000	-
Total culture and recreation	<u>19,305,852</u>	<u>19,467,556</u>	<u>18,590,298</u>	<u>877,258</u>
Total expenditures	<u>106,205,184</u>	<u>107,377,823</u>	<u>106,200,111</u>	<u>1,177,712</u>
Excess of revenues over expenditures	<u>(4,617,557)</u>	<u>(6,395,281)</u>	<u>(4,456,997)</u>	<u>1,938,284</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	10,140,809	10,530,587	10,530,587	-
Transfers out	<u>(4,048,731)</u>	<u>(6,946,101)</u>	<u>(7,136,112)</u>	<u>(190,011)</u>
Net other financing sources (uses)	<u>6,092,078</u>	<u>3,584,486</u>	<u>3,394,475</u>	<u>(190,011)</u>
Net change in fund balances	1,474,521	(2,810,795)	(1,062,522)	1,748,273
Fund balances at beginning of year	<u>47,450,070</u>	<u>47,450,070</u>	<u>47,450,070</u>	<u>-</u>
Fund balances at end of year	<u>\$ 48,924,591</u>	<u>\$ 44,639,275</u>	<u>\$ 46,387,548</u>	<u>\$ 1,748,273</u>

CITY OF McALLEN, TEXAS
HOTEL OCCUPANCY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Hotel tax	\$ 4,345,503	\$ 4,345,503	\$ 3,845,906	\$ (499,597)
Total revenues	<u>4,345,503</u>	<u>4,345,503</u>	<u>3,845,906</u>	<u>(499,597)</u>
EXPENDITURES				
Current:				
General government	<u>1,241,572</u>	<u>1,241,572</u>	<u>1,169,184</u>	<u>72,388</u>
Total expenditures	<u>1,241,572</u>	<u>1,241,572</u>	<u>1,169,184</u>	<u>72,388</u>
Excess (deficiency) of revenues over expenditures	<u>3,103,931</u>	<u>3,103,931</u>	<u>2,676,722</u>	<u>(571,985)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(3,103,931)</u>	<u>(3,103,931)</u>	<u>(2,701,613)</u>	<u>(402,318)</u>
Total other financing sources (uses)	<u>(3,103,931)</u>	<u>(3,103,931)</u>	<u>(2,701,613)</u>	<u>(402,318)</u>
Net changes in fund balances	-	-	(24,891)	(24,891)
Fund balances--beginning	<u>24,931</u>	<u>24,931</u>	<u>24,931</u>	<u>-</u>
Fund balances--ending	<u>\$ 24,931</u>	<u>\$ 24,931</u>	<u>\$ 40</u>	<u>\$ (24,891)</u>

CITY OF McALLEN, TEXAS
HOTEL VENUE PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Hotel tax	\$ 1,209,828	\$ 1,209,828	\$ 1,100,250	\$ (109,578)
Investment earnings	-	-	124	124
Total revenues	<u>1,209,828</u>	<u>1,209,828</u>	<u>1,100,374</u>	<u>(109,454)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(1,209,828)</u>	<u>(1,209,828)</u>	<u>(1,126,806)</u>	<u>(83,022)</u>
Total other financing sources (uses)	<u>(1,209,828)</u>	<u>(1,209,828)</u>	<u>(1,126,806)</u>	<u>(83,022)</u>
Net changes in fund balances	-	-	(26,432)	(26,432)
Fund balances--beginning	<u>99,570</u>	<u>99,570</u>	<u>99,570</u>	<u>-</u>
Fund balances--ending	<u><u>\$ 99,570</u></u>	<u><u>\$ 99,570</u></u>	<u><u>\$ 73,138</u></u>	<u><u>\$ (26,432)</u></u>

CITY OF McALLEN, TEXAS
McALLEN EB-5 REGIONAL CENTER FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Charges for services	\$ -	\$ -	\$ 2	\$ 2
Other	-	-	40,000	40,000
Net increase (decrease) in the Investment earnings	-	-	701	701
Total revenues	-	-	40,703	40,703
EXPENDITURES				
Current:				
General government	10,000	10,000	32,515	(22,515)
Total expenditures	10,000	10,000	32,515	(22,515)
Excess (deficiency) of revenues over expenditures	(10,000)	(10,000)	8,188	18,188
Net changes in fund balances	(10,000)	(10,000)	8,188	18,188
Fund balances--beginning	198,690	198,690	198,690	-
Fund balances--ending	<u>\$ 188,690</u>	<u>\$ 188,690</u>	<u>\$ 206,878</u>	<u>\$ 18,188</u>

CITY OF McALLEN, TEXAS
COMMUNITY DEVELOPMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Intergovernmental	\$ 1,838,636	\$ 1,838,636	\$ 1,604,533	\$ (234,103)
Other	-	-	55,102	55,102
Total revenues	<u>1,838,636</u>	<u>1,838,636</u>	<u>1,659,635</u>	<u>(179,001)</u>
EXPENDITURES				
Current:				
General government	320,843	320,843	299,785	21,058
Highways and streets	173,354	173,354	388,532	(215,178)
Health and welfare	762,878	762,878	861,331	(98,453)
Culture and recreation	<u>581,561</u>	<u>581,561</u>	<u>109,987</u>	<u>471,574</u>
Total expenditures	<u>1,838,636</u>	<u>1,838,636</u>	<u>1,659,635</u>	<u>179,001</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	-	-	-	-
Fund balances--beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances--ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF McALLEN, TEXAS
DOWNTOWN SERVICES PARKING FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For Fiscal Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Licenses and permits	\$ 12,000	\$ 12,000	\$ 15,904	\$ 3,904
Charges for services	1,161,000	1,161,000	1,108,958	(52,042)
Fines and forfeitures	230,000	230,000	142,212	(87,788)
Investment earnings	-	-	2,921	2,921
Other	7,200	7,200	5,128	(2,072)
Total revenues	<u>1,410,200</u>	<u>1,410,200</u>	<u>1,275,123</u>	<u>(135,077)</u>
EXPENDITURES				
Current:				
Highways and streets	<u>1,286,062</u>	<u>1,286,062</u>	<u>1,038,704</u>	<u>247,358</u>
Total expenditures	<u>1,286,062</u>	<u>1,286,062</u>	<u>1,038,704</u>	<u>247,358</u>
Excess (deficiency) of revenues over expenditures	<u>124,138</u>	<u>124,138</u>	<u>236,419</u>	<u>112,281</u>
Transfers out	<u>(242,941)</u>	<u>(242,941)</u>	<u>(242,941)</u>	<u>-</u>
Total other financing sources (uses)	<u>(242,941)</u>	<u>(242,941)</u>	<u>(242,941)</u>	<u>-</u>
Net changes in fund balances	(118,803)	(118,803)	(6,522)	112,281
Fund balances--beginning	<u>297,145</u>	<u>297,145</u>	<u>297,145</u>	<u>-</u>
Fund balances--ending	<u>\$ 178,342</u>	<u>\$ 178,342</u>	<u>\$ 290,623</u>	<u>\$ 112,281</u>

CITY OF McALLEN, TEXAS
DEVELOPMENT CORPORATION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Sales tax	\$ 15,468,392	\$ 15,468,392	\$ 14,655,387	\$ (813,005)
Intergovernmental revenues	7,332,694	7,332,694	501,978	(6,830,716)
Investment earnings	50,000	50,000	139,349	89,349
Net increase (decrease) in the fair value of investments	-	-	(37,536)	(37,536)
Other	1,130,000	1,130,000	1,323,592	193,592
Total revenues	<u>23,981,086</u>	<u>23,981,086</u>	<u>16,582,770</u>	<u>(7,398,316)</u>
EXPENDITURES				
Current:				
General government	6,808,229	6,808,229	14,608,239	(7,800,010)
Highways and streets	8,339,406	8,339,406	786,453	7,552,953
Health and welfare	3,481,193	3,481,193	4,478,098	(996,905)
Culture and recreation	4,741,495	4,741,495	2,137,566	2,603,929
Debt service:				
Interest and fiscal charges	-	-	298,320	(298,320)
Total expenditures	<u>23,370,323</u>	<u>23,370,323</u>	<u>22,308,676</u>	<u>1,061,647</u>
Excess (deficiency) of revenues over expenditures	<u>610,763</u>	<u>610,763</u>	<u>(5,725,906)</u>	<u>(6,336,669)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(4,596,471)	(4,596,471)	(4,501,980)	(94,491)
Issuance of debt	-	-	10,165,000	10,165,000
Total other financing sources (uses)	<u>(4,596,471)</u>	<u>(4,596,471)</u>	<u>5,663,020</u>	<u>10,070,509</u>
Net changes in fund balances	(3,985,708)	(3,985,708)	(62,886)	3,922,822
Fund balances--beginning	<u>13,827,497</u>	<u>13,827,497</u>	<u>13,827,497</u>	<u>-</u>
Fund balances--ending	<u>\$ 9,841,789</u>	<u>\$ 9,841,789</u>	<u>\$ 13,764,611</u>	<u>\$ 3,922,822</u>

CITY OF McALLEN, TEXAS
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Property tax	\$ 4,193,695	\$ 4,193,695	\$ 4,434,151	\$ 240,456
Interest	-	-	29,895	29,895
Total revenues	<u>4,193,695</u>	<u>4,193,695</u>	<u>4,464,046</u>	<u>270,351</u>
EXPENDITURES				
Current:				
Debt service:				
Principal	4,385,000	4,385,000	4,385,000	-
Interest and fiscal charges	<u>3,097,845</u>	<u>3,097,845</u>	<u>2,049,468</u>	<u>1,048,377</u>
Total expenditures	<u>7,482,845</u>	<u>7,482,845</u>	<u>6,434,468</u>	<u>1,048,377</u>
Excess (deficiency) of revenues over expenditures	<u>(3,289,150)</u>	<u>(3,289,150)</u>	<u>(1,970,422)</u>	<u>(778,026)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>3,289,150</u>	<u>3,289,150</u>	<u>3,289,150</u>	-
Total other financing sources (uses)	<u>3,289,150</u>	<u>3,289,150</u>	<u>3,289,150</u>	-
Net changes in fund balances	-	-	1,318,728	1,318,728
Fund balance--beginning	<u>1,052,179</u>	<u>1,052,179</u>	<u>1,052,179</u>	-
Fund balance--ending	<u>\$ 1,052,179</u>	<u>\$ 1,052,179</u>	<u>\$ 2,370,907</u>	<u>\$ 1,318,728</u>

CITY OF McALLEN, TEXAS
HOTEL VENUE DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
EXPENDITURES				
Current:				
Principal	\$ 445,000	\$ 445,000	\$ 445,000	\$ -
Interest and fiscal charges	<u>410,119</u>	<u>410,119</u>	<u>410,925</u>	<u>(806)</u>
Total expenditures	<u>855,119</u>	<u>855,119</u>	<u>855,925</u>	<u>(806)</u>
OTHER FINANCING SOURCES				
Transfers in	<u>855,119</u>	<u>855,119</u>	<u>855,925</u>	<u>806</u>
Total other financing sources	<u>855,119</u>	<u>855,119</u>	<u>855,925</u>	<u>806</u>
Net changes in fund balances	-	-	-	-
Fund balances--beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances--ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

CITY OF McALLEN, TEXAS
CAPITAL IMPROVEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Investment earnings	\$ -	\$ -	\$ 25,169	\$ 25,169
Net increase (decrease) in the fair value of investments	-	-	(4,105)	(4,105)
Other	<u>110,076</u>	<u>110,076</u>	<u>615,486</u>	<u>505,410</u>
Total revenues	<u>110,076</u>	<u>110,076</u>	<u>636,550</u>	<u>526,474</u>
EXPENDITURES				
Current:				
General government	475,000	475,000	527,041	(52,041)
Public safety	599,800	599,800	626,509	(26,709)
Highways and streets	393,000	393,000	340,272	52,728
Culture and recreation	<u>579,459</u>	<u>579,459</u>	<u>493,405</u>	<u>86,054</u>
Total expenditures	<u>2,047,259</u>	<u>2,047,259</u>	<u>1,987,227</u>	<u>60,032</u>
Deficiency of revenues over expenditures	<u>(1,937,183)</u>	<u>(1,937,183)</u>	<u>(1,350,677)</u>	<u>466,442</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>782,716</u>	<u>3,680,086</u>	<u>3,870,097</u>	<u>190,011</u>
Total other financing sources (uses)	<u>782,716</u>	<u>3,680,086</u>	<u>3,870,097</u>	<u>190,011</u>
Net changes in fund balances	(1,154,467)	1,742,903	2,519,420	656,453
Fund balances--beginning	<u>2,697,003</u>	<u>2,697,003</u>	<u>2,697,003</u>	<u>-</u>
Fund balances--ending	<u>\$ 1,542,536</u>	<u>\$ 4,439,906</u>	<u>\$ 5,216,423</u>	<u>\$ 656,453</u>

CITY OF McALLEN, TEXAS
INFORMATION TECHNOLOGY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Other	\$ 45,770	\$ 45,770	\$ 49,369	\$ 3,599
Net increase (decrease) in the Investment earnings	-	-	2,350	2,350
Total revenues	<u>45,770</u>	<u>45,770</u>	<u>51,719</u>	<u>5,949</u>
EXPENDITURES				
Current:				
General government	<u>381,000</u>	<u>381,000</u>	<u>148,392</u>	<u>232,608</u>
Total expenditures	<u>381,000</u>	<u>381,000</u>	<u>148,392</u>	<u>232,608</u>
Excess (deficiency) of revenues over expenditures	<u>(335,230)</u>	<u>(335,230)</u>	<u>(96,673)</u>	<u>238,557</u>
OTHER FINANCING SOURCES (USES)				
Net changes in fund balances	(335,230)	(335,230)	(96,673)	238,557
Fund balances--beginning	<u>292,330</u>	<u>292,330</u>	<u>292,330</u>	<u>-</u>
Fund balances--ending	<u><u>\$ (42,900)</u></u>	<u><u>\$ (42,900)</u></u>	<u><u>\$ 195,657</u></u>	<u><u>\$ 238,557</u></u>

CITY OF McALLEN, TEXAS
PARK DEVELOPMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Other	\$ 51,100	\$ 51,100	\$ 317,808	\$ 266,708
Net increase (decrease) in the fair value of investments	-	-	(4,090)	(4,090)
Investment earnings	-	-	16,839	16,839
Total revenues	<u>51,100</u>	<u>51,100</u>	<u>330,557</u>	<u>279,457</u>
EXPENDITURES				
Current:				
Culture and recreation	<u>50,000</u>	<u>50,000</u>	<u>98,349</u>	<u>(48,349)</u>
Total expenditures	<u>50,000</u>	<u>50,000</u>	<u>98,349</u>	<u>(48,349)</u>
Excess (deficiency) of revenues over expenditures	<u>1,100</u>	<u>1,100</u>	<u>232,208</u>	<u>327,806</u>
Net changes in fund balances	1,100	1,100	232,208	231,108
Fund balances--beginning	<u>1,729,231</u>	<u>1,729,231</u>	<u>1,729,231</u>	<u>-</u>
Fund balances--ending	<u>\$ 1,730,331</u>	<u>\$ 1,730,331</u>	<u>\$ 1,961,439</u>	<u>\$ 231,108</u>

CITY OF McALLEN, TEXAS
STREET IMPROVEMENTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Investment earnings	-	-	116,740	116,740
Total revenues	-	-	116,740	116,740
EXPENDITURES				
Current:				
Highways and streets	12,965,806	12,965,806	2,285,857	10,679,949
Total expenditures	12,965,806	12,965,806	2,285,857	10,679,949
Deficiency of revenues over expenditures	(12,965,806)	(12,965,806)	(2,169,117)	10,796,689
Net changes in fund balances	(12,965,806)	(12,965,806)	(2,169,117)	10,796,689
Fund balances--beginning	12,996,666	12,996,666	12,996,666	-
Fund balances--ending	<u>\$ 30,860</u>	<u>\$ 30,860</u>	<u>\$ 10,827,549</u>	<u>\$ 10,796,689</u>

CITY OF McALLEN, TEXAS
SPORTS FACILITY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Intergovernmental	\$ 500,000	\$ 500,000	\$ 365,607	\$ (134,393)
Investment earnings	-	-	132,633	132,633
Other	400,000	400,000	-	(400,000)
Total revenues	<u>900,000</u>	<u>900,000</u>	<u>498,240</u>	<u>(401,760)</u>
EXPENDITURES				
Current:				
Culture and recreation	<u>15,057,940</u>	<u>15,057,940</u>	<u>3,851,773</u>	<u>11,206,167</u>
Total expenditures	<u>15,057,940</u>	<u>15,057,940</u>	<u>3,851,773</u>	<u>11,206,167</u>
Deficiency of revenues over expenditures	<u>(14,157,940)</u>	<u>(14,157,940)</u>	<u>(3,353,533)</u>	<u>(11,607,927)</u>
Net changes in fund balances	(14,157,940)	(14,157,940)	(3,353,533)	(11,607,927)
Fund balances--beginning	<u>13,996,929</u>	<u>13,996,929</u>	<u>13,996,929</u>	<u>-</u>
Fund balances--ending	<u>\$ (161,011)</u>	<u>\$ (161,011)</u>	<u>\$ 10,643,396</u>	<u>\$ (11,607,927)</u>

CITY OF McALLEN, TEXAS
PUBLIC EDUCATION GOVERNMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Franchise tax	\$ -	\$ -	\$ 186,662	\$ 186,662
Investment earnings	-	-	7,290	7,290
Total revenues	<u>-</u>	<u>-</u>	<u>193,952</u>	<u>193,952</u>
EXPENDITURES				
Current:				
General government	<u>300,000</u>	<u>300,000</u>	<u>4,786</u>	<u>295,214</u>
Total expenditures	<u>300,000</u>	<u>300,000</u>	<u>4,786</u>	<u>295,214</u>
Excess (deficiency) of revenues over expenditures	<u>(300,000)</u>	<u>(300,000)</u>	<u>189,166</u>	<u>489,166</u>
Net changes in fund balances	(300,000)	(300,000)	189,166	489,166
Fund balances--beginning	<u>677,790</u>	<u>677,790</u>	<u>677,790</u>	<u>-</u>
Fund balances--ending	<u>\$ 377,790</u>	<u>\$ 377,790</u>	<u>\$ 866,956</u>	<u>\$ 489,166</u>

CITY OF McALLEN, TEXAS
PERFORMING ARTS C.O. FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Investment earnings	-	-	37,892	37,892
Total revenues	-	-	37,892	37,892
EXPENDITURES				
Current:				
Culture and recreation	6,647,117	6,647,117	4,579,148	2,067,969
Total expenditures	6,647,117	6,647,117	4,579,148	2,067,969
Deficiency of revenues over expenditures	(6,647,117)	(6,647,117)	(4,541,256)	2,105,861
OTHER FINANCING SOURCES				
Transfers in	-	64,041	16,392	(47,649)
Total other financing sources	-	64,041	16,392	(47,649)
Net changes in fund balances	(6,647,117)	(6,583,076)	(4,524,864)	2,058,212
Fund balances--beginning	5,283,827	5,283,827	5,283,827	-
Fund balances--ending	<u>\$ (1,363,290)</u>	<u>\$ (1,299,249)</u>	<u>\$ 758,963</u>	<u>\$ 2,058,212</u>

CITY OF McALLEN, TEXAS
WATER FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Water sales				
Residential customers	\$ 12,281,037	\$ 12,281,037	\$ 10,878,938	\$ (1,402,099)
Commercial accounts	6,126,750	6,126,750	6,086,094	(40,656)
Industrial customers	519,267	519,267	467,141	(52,126)
Total water sales	<u>18,927,054</u>	<u>18,927,054</u>	<u>17,432,173</u>	<u>(1,494,881)</u>
Service charges:				
Tap fees	800,000	800,000	816,798	16,798
Connect fees	190,000	190,000	244,065	54,065
Reconnect fees	190,000	190,000	195,400	5,400
Other services	886,500	886,500	1,178,678	292,178
Total service charges	<u>2,066,500</u>	<u>2,066,500</u>	<u>2,434,941</u>	<u>368,441</u>
Total operating revenues	<u>20,993,554</u>	<u>20,993,554</u>	<u>19,867,114</u>	<u>(1,126,440)</u>
Non-operating revenues:				
Investment earnings	106,800	106,800	197,260	90,460
Net increase (decrease) in the fair value of investment	-	-	(83,873)	(83,873)
Other	26,019	26,019	1,251,709	1,225,690
Total non-operating revenues	<u>132,819</u>	<u>132,819</u>	<u>1,365,096</u>	<u>1,232,277</u>
Total revenues	<u>21,126,373</u>	<u>21,126,373</u>	<u>21,232,210</u>	<u>105,837</u>
Expenses:				
Water plant:				
Salaries and benefits	1,693,882	1,693,882	1,537,707	156,175
Supplies and raw water purchases	1,219,060	1,219,060	1,200,808	18,252
Contractual and other services	4,084,821	4,084,821	3,985,836	98,985
Repairs and maintenance	480,500	480,500	316,662	163,838
Total water plant	<u>7,478,263</u>	<u>7,478,263</u>	<u>7,041,013</u>	<u>437,250</u>

CITY OF McALLEN, TEXAS
WATER FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Water lab:				
Salaries and benefits	\$ 278,574	\$ 278,574	\$ 266,881	\$ 11,693
Supplies	30,130	30,130	27,080	3,050
Contractual and other services	59,823	59,823	44,131	15,692
Repairs and maintenance	27,950	27,950	22,659	5,291
Total water lab	396,477	396,477	360,751	35,726
Transmission and distribution:				
Salaries and benefits	2,038,939	2,038,939	1,946,987	91,952
Supplies	42,500	42,500	27,319	15,181
Contractual and other services	144,866	144,866	65,167	79,699
Repairs and maintenance	241,500	241,500	116,143	125,357
Total Transmission and distribution	2,467,805	2,467,805	2,155,616	312,189
Water meters:				
Salaries and benefits	846,974	846,974	786,843	60,131
Supplies	24,965	24,965	17,900	7,065
Contractual and other services	78,691	78,691	35,216	43,475
Repairs and maintenance	86,867	86,867	67,533	19,334
Total water meters	1,037,497	1,037,497	907,492	130,005
Utility billing:				
Salaries and benefits	432,079	432,079	410,407	21,672
Supplies	38,000	38,000	29,019	8,981
Contractual and other services	327,670	327,670	292,767	34,903
Repairs and maintenance	-	-	1,479	(1,479)
Total utility billing	797,749	797,749	733,672	64,077

CITY OF McALLEN, TEXAS
WATER FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Customer relations:				
Salaries and benefits	\$ 838,278	\$ 838,278	\$ 797,926	\$ 40,352
Supplies	15,560	15,560	14,467	1,093
Contractual and other services	79,566	79,566	66,920	12,646
Repairs and maintenance	38,323	38,323	37,090	1,233
Total customer relations	971,727	971,727	916,403	55,324
Treasury/Fiscal Management				
Salaries and benefits	317,857	317,857	269,053	48,804
Supplies	1,500	1,500	968	532
Contractual and other services	103,079	103,079	87,402	15,677
Repairs and maintenance	66,207	66,207	61,867	4,340
Total treasury/fiscal management	488,643	488,643	419,290	69,353
Administration:				
Salaries and benefits	674,479	831,322	1,022,896	(191,574)
Supplies	12,000	12,000	4,548	7,452
Contractual and other services	627,150	627,150	589,510	37,640
Repairs and maintenance	7,600	7,600	9,901	(2,301)
Total administration	1,321,229	1,478,072	1,626,855	(148,783)
Non-departmental expenses:				
Liability insurance	55,099	55,099	39,060	16,039
Interest and fiscal charges	824,172	824,172	772,405	51,767
Bond principal requirements	1,316,800	1,316,800	-	1,316,800
Other	-	-	(113,412)	113,412
Capital outlay	11,188,734	11,188,734	2,399,820	8,788,914
Total non-departmental expenses	13,384,805	13,384,805	3,097,873	10,286,932
Total expenses	28,344,195	28,501,038	17,266,653	11,234,385
Excess (deficiency) of revenues over over expenses (budget basis) before transfers	(7,217,822)	(7,374,665)	3,965,557	11,340,222

CITY OF McALLEN, TEXAS
WATER FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Transfers:				
Transfers out	(42,839)	(42,839)	(42,839)	-
Net transfers	(42,839)	(42,839)	(42,839)	-
Excess (deficiency) of revenues over budget	\$ (7,260,661)	\$ (7,417,504)	\$ 3,922,718	\$ 11,340,222
GAAP basis adjustments:				
Depreciation expense, not budgeted	-	-	(4,645,422)	(4,645,422)
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	-	-	2,399,820	2,399,820
Principal payments on revenue bonds-budgeted as expenses per budget basis, treated as a reduction of bonds payable per GAAP basis	1,316,800	1,316,800	-	1,316,800
Net income-GAAP basis	<u>\$ (8,577,461)</u>	<u>\$ (8,734,304)</u>	<u>\$ 1,677,116</u>	<u>\$ 10,411,420</u>
	-	-	-	-

CITY OF McALLEN, TEXAS
WATER FUND
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
IN RESTRICTED ACCOUNTS
For Fiscal Year Ended September 30, 2017

	<u>Current Debt Service</u>	<u>Customer Deposits</u>	<u>Depreciation</u>
Cash, certificates of deposit, and investments at September 30, 2016	\$ 668,166	\$ 2,538,831	\$ 7,690,499
Cash receipts:			
Transfers in	2,153,654	-	1,588,716
Operating activities	-	1,042,500	113,460
Interest received	-	-	87,696
Valuation allowance	-	-	(42,163)
Total cash receipts	<u>2,153,654</u>	<u>1,042,500</u>	<u>1,747,709</u>
Total cash available	<u>2,821,820</u>	<u>3,581,331</u>	<u>9,438,208</u>
Cash disbursements:			
Other	-	-	17,155
Due from other funds	-	-	-
Transfers out	-	-	-
Refunds	-	1,043,906	-
Capital acquisition	-	-	726,094
Principal payments	1,316,800	-	-
Interest and fiscal charges (net)	<u>913,264</u>	<u>-</u>	<u>-</u>
Total cash disbursements	<u>2,230,064</u>	<u>1,043,906</u>	<u>743,249</u>
Cash, certificates of deposit, and investments at September 30, 2017	<u>\$ 591,756</u>	<u>\$ 2,537,425</u>	<u>\$ 8,694,959</u>
Cash, certificates of deposit, and investments at September 30, 2017 is comprised of the following:			
Cash	\$ -	\$ -	\$ 132,696
Certificates of deposit	-	-	-
Investments (net)	591,756	2,537,425	8,539,373
Accrued Interest	-	-	22,890
Note receivable	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 591,756</u>	<u>\$ 2,537,425</u>	<u>\$ 8,694,959</u>

<u>Capital Improvement</u>	<u>Water Revenue Bonds</u>	<u>Total</u>
\$ 5,045,883	\$ 65,231	\$ 16,008,610
1,149,948	-	4,892,318
9,428	-	1,165,388
48,098	-	135,794
(21,882)	-	(64,045)
<u>1,185,592</u>	<u>-</u>	<u>6,193,500</u>
<u>6,231,475</u>	<u>65,231</u>	<u>22,202,110</u>
54,018	-	71,173
-	-	-
-	-	-
-	-	1,043,906
1,563,035	65,231	2,354,360
-	-	1,316,800
<u>-</u>	<u>-</u>	<u>913,264</u>
<u>1,617,053</u>	<u>65,231</u>	<u>5,699,503</u>
<u>\$ 4,614,422</u>	<u>\$ -</u>	<u>\$ 16,438,562</u>
\$ -	\$ -	\$ 132,696
-	-	-
4,605,536	-	16,274,090
8,886	-	31,776
<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 4,614,422</u>	<u>\$ -</u>	<u>\$ 16,438,562</u>

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CITY OF McALLEN, TEXAS
SEWER FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Sewer service charges	\$ 18,176,550	\$ 18,176,550	\$ 16,724,222	\$ (1,452,328)
Industrial surcharges	372,237	372,237	309,580	(62,657)
Other services	<u>398,500</u>	<u>398,500</u>	<u>670,794</u>	<u>272,294</u>
Total operating revenues	<u>18,947,287</u>	<u>18,947,287</u>	<u>17,704,596</u>	<u>(1,242,691)</u>
Non-operating revenues:				
Investment earnings	144,482	144,482	342,721	198,239
Net increase (decrease) in the fair value of investment	-	-	(63,788)	(63,788)
Other	<u>23,730,835</u>	<u>23,730,835</u>	<u>2,149,675</u>	<u>(21,581,160)</u>
Total non-operating revenues	<u>23,875,317</u>	<u>23,875,317</u>	<u>2,428,608</u>	<u>(21,446,709)</u>
Total revenues	<u>42,822,604</u>	<u>42,822,604</u>	<u>20,133,204</u>	<u>(22,689,400)</u>
Expenses:				
Sewer plant:				
Salaries and benefits	2,146,624	2,146,624	1,953,093	193,531
Supplies	198,200	198,200	162,158	36,042
Contractual and other services	2,229,438	2,229,438	1,983,903	245,535
Repairs and maintenance	<u>195,050</u>	<u>195,050</u>	<u>200,899</u>	<u>(5,849)</u>
Total sewer plant	<u>4,769,312</u>	<u>4,769,312</u>	<u>4,300,053</u>	<u>469,259</u>
Sewer lab:				
Salaries and benefits	375,847	375,847	367,091	8,756
Supplies	58,347	58,347	50,126	8,221
Contractual and other services	7,480	7,480	5,658	1,822
Repairs and maintenance	<u>8,410</u>	<u>8,410</u>	<u>4,262</u>	<u>4,148</u>
Total sewer lab	<u>450,084</u>	<u>450,084</u>	<u>427,137</u>	<u>22,947</u>

CITY OF McALLEN, TEXAS
SEWER FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Sewer collection:				
Salaries and benefits	\$ 1,133,457	\$ 1,133,457	\$ 1,080,230	\$ 53,227
Supplies	466,000	466,000	464,587	1,413
Contractual and other services	305,645	305,645	314,864	(9,219)
Repairs and maintenance	334,000	334,000	311,223	22,777
Total sewer collection	<u>2,239,102</u>	<u>2,239,102</u>	<u>2,170,904</u>	<u>68,198</u>
Administration:				
Salaries and benefits	705,731	705,731	879,392	(173,661)
Supplies	24,000	24,000	8,444	15,556
Contractual and other services	643,987	643,987	581,005	62,982
Repairs and maintenance	26,500	26,500	14,270	12,230
Total administration	<u>1,400,218</u>	<u>1,400,218</u>	<u>1,483,111</u>	<u>(82,893)</u>
Non-departmental expenses:				
Employee benefits	106,434	106,434	150,344	(43,910)
Liability insurance	65,261	65,261	42,529	22,732
Interest and fiscal charges	1,567,862	1,567,862	1,436,816	131,046
Bond principal requirements	4,049,200	4,049,200	-	4,049,200
Capitalized interest	-	-	(1,020,364)	1,020,364
Other	-	-	(491,002)	491,002
Capital outlay	49,829,442	49,829,442	24,996,707	24,832,735
Total non-departmental expenses	<u>55,618,199</u>	<u>55,618,199</u>	<u>25,115,030</u>	<u>30,503,169</u>
Total expenses	<u>64,476,915</u>	<u>64,476,915</u>	<u>33,496,235</u>	<u>30,980,680</u>
Excess (deficiency) of revenues over expenses (budget basis) before transfers	(21,654,311)	(21,654,311)	(13,363,031)	8,291,280
Transfers:				
Transfers out	(24,390)	(24,390)	(24,390)	-
Net transfers	<u>(24,390)</u>	<u>(24,390)</u>	<u>(24,390)</u>	<u>-</u>

CITY OF McALLEN, TEXAS
SEWER FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Excess (deficiency) of revenues over budget	\$ (21,678,701)	\$ (21,678,701)	\$ (13,387,421)	\$ 8,291,280
GAAP basis adjustments:				
Depreciation expense, not budgeted	-	-	(5,975,189)	(5,975,189)
Principal payments on revenue bonds-budgeted as expenses per budget basis, treated as reduction of bonds payable per GAAP basis	4,049,200	4,049,200	-	4,049,200
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	-	-	24,996,707	24,996,707
Net income-GAAP basis	<u>\$ (25,727,901)</u>	<u>\$ (25,727,901)</u>	<u>\$ 5,634,097</u>	<u>\$ 27,312,798</u>

CITY OF McALLEN, TEXAS
SEWER FUND
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
IN RESTRICTED ACCOUNTS
For Fiscal Year Ended September 30, 2017

	Current Debt Service	Bond Reserve	Reserve for Improvements	TWDB Debt Service	Depreciation
Cash, certificates of deposit, and investments at September 30, 2016	\$ 728,114	\$ 1,966,971	\$ 16,722,478	\$ 1,883,964	\$ 11,934,442
Cash receipts:					
Escrow proceeds	-	-	-	-	-
Transfers from operating cash	2,276,585	246,842	-	3,311,434	2,980,578
Transfers from internal funds	-	-	-	-	-
Due sewer fund	-	-	8,220,422	-	-
Interest received	-	21,253	20,158	14,303	136,192
Valuation allowance	-	-	-	-	(46,011)
Capital contributions	-	-	-	-	-
Total cash receipts	<u>2,276,585</u>	<u>268,095</u>	<u>8,240,580</u>	<u>3,325,737</u>	<u>3,070,759</u>
Total cash available	<u>3,004,699</u>	<u>2,235,066</u>	<u>24,963,058</u>	<u>5,209,701</u>	<u>15,005,201</u>
Cash disbursements:					
Other	-	-	-	-	9,792
Due sewer fund and internal funds	-	-	15,349,611	-	-
Principal payments	1,378,200	-	-	2,671,000	-
Interest and fiscal charges (net)	1,001,765	-	-	606,555	-
Capital acquisitions	-	-	-	-	961,990
Total cash disbursements	<u>2,379,965</u>	<u>-</u>	<u>15,349,611</u>	<u>3,277,555</u>	<u>971,782</u>
Cash, certificates of deposit, and investments at September 30, 2017	<u>\$ 624,734</u>	<u>\$ 2,235,066</u>	<u>\$ 9,613,447</u>	<u>\$ 1,932,146</u>	<u>\$ 14,033,419</u>
Cash, certificates of deposit, and investments at September 30, 2017 is comprised of the following:					
Cash	\$ -	\$ -	\$ -	\$ 1,200	\$ 787
Certificates of deposit	-	-	-	-	-
Investments (net)	624,734	2,235,066	9,613,447	1,930,946	13,999,133
Accrued Interest	-	-	-	-	33,499
Totals	<u>\$ 624,734</u>	<u>\$ 2,235,066</u>	<u>\$ 9,613,447</u>	<u>\$ 1,932,146</u>	<u>\$ 14,033,419</u>

<u>Capital Improvement</u>	<u>Sewer Revenue Bonds</u>	<u>Sewer Series 2012</u>	<u>Sewer Series 2015</u>	<u>Total</u>
<u>\$ 7,601,163</u>	<u>\$ 10,967,396</u>	<u>\$ 518,554</u>	<u>\$ 2</u>	<u>52,323,084</u>
-	-	4,448,694	-	4,448,694
273,200	-	-	10,900,258	19,988,897
530,920	-	-	-	530,920
-	-	93,460	-	8,313,882
60,947	75,445	-	-	328,298
(16,559)	-	-	-	(62,570)
<u>150,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>150,000</u>
<u>998,508</u>	<u>75,445</u>	<u>4,542,154</u>	<u>10,900,258</u>	<u>40,149,685</u>
<u>8,599,671</u>	<u>11,042,841</u>	<u>5,060,708</u>	<u>10,900,260</u>	<u>92,472,769</u>
146,819	3,525	-	-	160,136
-	-	-	-	-
-	-	-	-	4,049,200
-	-	-	-	1,608,320
<u>3,877,122</u>	<u>6,588,155</u>	<u>4,542,154</u>	<u>10,900,258</u>	<u>26,869,679</u>
<u>4,023,941</u>	<u>6,591,680</u>	<u>4,542,154</u>	<u>10,900,258</u>	<u>32,687,335</u>
<u>\$ 4,575,730</u>	<u>\$ 4,451,161</u>	<u>\$ 518,554</u>	<u>\$ 2</u>	<u>\$ 37,984,259</u>
\$ 346,269	\$ 168,704	\$ 518,554	\$ 2	\$ 1,035,516
-	-	-	-	-
4,219,244	4,282,457	-	-	36,905,027
<u>10,217</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,716</u>
<u>\$ 4,575,730</u>	<u>\$ 4,451,161</u>	<u>\$ 518,554</u>	<u>\$ 2</u>	<u>\$ 37,984,259</u>

CITY OF McALLEN, TEXAS
SANITATION FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Solid waste collections	\$ 18,978,875	\$ 18,978,875	\$ 19,133,391	\$ 154,516
Other services	60,000	60,000	97,081	37,081
Total operating revenues	<u>19,038,875</u>	<u>19,038,875</u>	<u>19,230,472</u>	<u>191,597</u>
Non-operating revenues:				
Investment earnings	-	-	170,005	170,005
Net increase (decrease) in the fair value of investment	-	-	(67,321)	(67,321)
Other	-	-	79,143	79,143
Total non-operating revenues	<u>-</u>	<u>-</u>	<u>181,827</u>	<u>181,827</u>
Total revenues	<u>19,038,875</u>	<u>19,038,875</u>	<u>19,412,299</u>	<u>373,424</u>
Expenses:				
Facilities administration:				
Salaries and benefits	894,091	894,091	1,077,401	(183,310)
Supplies	15,750	15,750	14,007	1,743
Contractual and other services	1,381,170	1,381,170	1,368,184	12,986
Repairs and maintenance	55,097	55,097	46,854	8,243
Capital outlay	502,500	502,500	233,517	268,983
Total facilities administration	<u>2,848,608</u>	<u>2,848,608</u>	<u>2,739,963</u>	<u>108,645</u>
Brush collection:				
Salaries and benefits	1,754,353	1,754,353	1,535,282	219,071
Supplies	257,320	257,320	224,170	33,150
Contractual and other services	145,225	145,225	182,921	(37,696)
Repairs and maintenance	540,531	540,531	485,629	54,902
Total brush collection	<u>2,697,429</u>	<u>2,697,429</u>	<u>2,428,002</u>	<u>269,427</u>
Residential collection:				
Salaries and benefits	\$ 1,592,842	\$ 1,592,842	\$ 1,509,906	\$ 82,936
Supplies	35,109	35,109	24,402	10,707
Contractual and other services	608,040	608,040	839,573	(231,533)
Repairs and maintenance	934,581	934,581	854,768	79,813
Capital outlay	93,000	93,000	-	93,000
Total residential collection	<u>3,263,572</u>	<u>3,263,572</u>	<u>3,228,649</u>	<u>34,923</u>

CITY OF McALLEN, TEXAS
SANITATION FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Commercial box collection:				
Salaries and benefits	1,513,028	1,513,028	1,326,242	186,786
Supplies	44,479	44,479	41,034	3,445
Contractual and other services	1,335,980	1,335,980	1,433,283	(97,303)
Repairs and maintenance	1,159,476	1,159,476	922,251	237,225
Capital outlay	341,350	341,350	238,717	102,633
Total commercial box collection	<u>4,394,313</u>	<u>4,394,313</u>	<u>3,961,527</u>	<u>432,786</u>
Roll offs:				
Salaries and benefits	342,112	342,112	267,584	74,528
Supplies	5,750	5,750	3,809	1,941
Contractual and other services	323,450	323,450	331,608	(8,158)
Repairs and maintenance	249,874	249,874	233,388	16,486
Capital outlay	22,500	22,500	21,375	1,125
Total roll offs	<u>943,686</u>	<u>943,686</u>	<u>857,764</u>	<u>85,922</u>
Recycling:				
Salaries and benefits	1,147,721	1,147,721	974,101	173,620
Supplies	53,606	53,606	45,503	8,103
Contractual and other services	263,943	263,943	446,007	(182,064)
Repairs and maintenance	179,749	179,749	178,012	1,737
Capital outlay	121,750	121,750	19,350	102,400
Total recycling	<u>1,766,769</u>	<u>1,766,769</u>	<u>1,662,973</u>	<u>103,796</u>
Composting:				
Salaries and benefits	\$ 446,772	\$ 446,772	\$ 389,470	\$ 57,302
Supplies	26,000	26,000	25,914	86
Contractual and other services	252,375	252,375	247,570	4,805
Repairs and maintenance	121,975	121,975	73,743	48,232
Total composting	<u>847,122</u>	<u>847,122</u>	<u>736,697</u>	<u>110,425</u>

CITY OF McALLEN, TEXAS
SANITATION FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Street cleaning:				
Salaries and benefits	249,298	249,298	233,517	15,781
Supplies	2,330	2,330	2,131	199
Contractual and other services	4,842	4,842	325	4,517
Repairs and maintenance	111,427	111,427	96,685	14,742
Total street cleaning	<u>367,897</u>	<u>367,897</u>	<u>332,658</u>	<u>35,239</u>
Non-departmental expenses:				
Depreciation fund-capital outlay	5,989,137	5,989,137	1,717,920	4,271,217
Liability insurance	104,034	104,034	104,034	-
Total non-departmental expenses	<u>6,093,171</u>	<u>6,093,171</u>	<u>1,821,954</u>	<u>4,271,217</u>
Total expenses	<u>23,222,567</u>	<u>23,222,567</u>	<u>17,770,187</u>	<u>5,452,380</u>
Excess (deficiency) of revenues over expenses (budget basis) before transfers	(4,183,692)	(4,183,692)	1,642,112	5,825,804
Transfers out	(41,276)	(41,276)	(41,276)	-
Net transfers	(41,276)	(41,276)	(41,276)	-
Excess (deficiency) of revenues over budget	<u>(4,224,968)</u>	<u>(4,224,968)</u>	<u>1,600,836</u>	<u>5,825,804</u>
GAAP basis adjustments:				
Depreciation expense, not budgeted	-	-	(2,427,312)	(2,427,312)
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	-	-	2,230,880	2,230,880
Net income-GAAP basis	<u>\$ (4,224,968)</u>	<u>\$ (4,224,968)</u>	<u>\$ 1,404,404</u>	<u>\$ 5,629,372</u>

CITY OF McALLEN, TEXAS
PALM VIEW GOLF COURSE FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Green fees	\$ 644,670	\$ 644,670	\$ 539,982	\$ (104,688)
Membership sales	168,252	168,252	150,616	(17,636.00)
Cart rental	297,629	297,629	252,411	(45,218.00)
Rentals and other sales	173,632	173,632	193,791	20,159.00
Total operating revenues	<u>1,284,183</u>	<u>1,284,183</u>	<u>1,136,800</u>	<u>(147,383)</u>
Non-operating revenues:				
Investment earnings	1,200	1,200	12,246	11,046
fair value of investment	-	-	(1,948)	(1,948)
Other	-	-	227,217	227,217
Total non-operating revenues	<u>1,200</u>	<u>1,200</u>	<u>237,515</u>	<u>236,315</u>
Total revenues	<u>1,285,383</u>	<u>1,285,383</u>	<u>1,374,315</u>	<u>88,932</u>
Expenses:				
Salaries and benefits	825,570	825,570	777,212	48,358
Supplies	132,024	132,024	124,479	7,545
Contractual and other services	136,957	136,957	141,435	(4,478)
Repairs and maintenance	93,395	93,395	86,988	6,407
Capital outlay	65,000	65,000	163,689	(98,689)
Total expenses	<u>1,252,946</u>	<u>1,252,946</u>	<u>1,293,803</u>	<u>(40,857)</u>
Excess (deficiency) of revenues over expenses (budget basis) before transfers	32,437	32,437	80,512	(48,075)
Transfers out	(4,065)	(4,065)	(4,065)	-
Excess (deficiency) of revenues over budget	<u>28,372</u>	<u>28,372</u>	<u>76,447</u>	<u>(48,075)</u>
GAAP basis adjustments:				
Depreciation expense, not budgeted	\$ -	\$ -	\$ (304,155)	\$ 304,155
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	-	-	163,689	(163,689)
Net income-GAAP basis	<u>\$ 28,372</u>	<u>\$ 28,372</u>	<u>\$ (64,019)</u>	<u>\$ 92,391</u>

CITY OF McALLEN, TEXAS
TRANSIT TERMINAL FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Other services	\$ -	\$ -	\$ 57,580	\$ 57,580
Total operating revenues	<u>-</u>	<u>-</u>	<u>57,580</u>	<u>57,580</u>
Non-operating revenues:				
Investment earnings	-	-	13,589	13,589
Net increase (decrease) in the fair value of investments	-	-	(858)	(858)
Intergovernmental	<u>4,350,790</u>	<u>4,596,254</u>	<u>812,126</u>	<u>(3,784,128)</u>
Total non-operating revenues	<u>4,350,790</u>	<u>4,596,254</u>	<u>824,857</u>	<u>(3,771,397)</u>
Total revenues	<u>4,350,790</u>	<u>4,596,254</u>	<u>882,437</u>	<u>(3,713,817)</u>
Expenses:				
Salaries and benefits	309,642	309,642	260,280	49,362
Supplies	-	-	74	(74)
Contractual and other services	138,696	138,696	165,189	(26,493)
Repairs and maintenance	308,211	308,211	342,146	(33,935)
Capital outlay	<u>4,476,884</u>	<u>4,831,079</u>	<u>427,950</u>	<u>4,403,129</u>
Total expenses	<u>5,233,433</u>	<u>5,587,628</u>	<u>1,195,639</u>	<u>4,391,989</u>

CITY OF McALLEN, TEXAS
TRANSIT TERMINAL FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Excess (deficiency) of revenues over expenses (budget basis) before transfers	(882,643)	(991,374)	(313,202)	678,172
Transfers:				
Transfers in	303,948	351,313	209,457	(141,856)
Transfers out	<u>(354,279)</u>	<u>(354,279)</u>	<u>(354,279)</u>	<u>-</u>
Excess (deficiency) of revenues over budget	<u>(932,974)</u>	<u>(994,340)</u>	<u>(458,024)</u>	<u>536,316</u>
GAAP basis adjustments:				
Depreciation expense, not budgeted	-	-	(914,543)	(914,544)
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	<u>-</u>	<u>-</u>	<u>427,950</u>	<u>427,950</u>
Net income-GAAP basis	<u>\$ (932,974)</u>	<u>\$ (994,340)</u>	<u>\$ (944,617)</u>	<u>\$ 49,722</u>

CITY OF McALLEN, TEXAS
McALLEN INTERNATIONAL CIVIC CENTER FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Non-operating revenues:				
Investment earnings	\$ -	\$ -	\$ 266	\$ 266
Total non-operating revenues	-	-	266	266
Total revenues	-	-	266	266
Expenses:				
Contractual and other services	-	-	154	(154)
Total expenses	-	-	154	(154)
Excess (deficiency) of revenues over expenses (budget basis) before transfers	-	-	112	(112)
Transfers:				
Transfers out	(323,561)	(387,602)	(339,953)	47,649
Net transfers	(323,561)	(387,602)	(339,953)	47,649
Excess (deficiency) of revenues over budget	(323,561)	(387,602)	(339,841)	47,761
Net income-GAAP basis	<u>\$ (323,561)</u>	<u>\$ (387,602)</u>	<u>\$ (339,841)</u>	<u>\$ 47,761</u>

CITY OF McALLEN, TEXAS
McALLEN CONVENTION CENTER FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Rentals	\$ 1,030,000	\$ 1,030,000	\$ 1,067,801	\$ 37,801
Concessions-other	1,260,000	1,260,000	1,261,878	1,878
Other services	221,000	221,000	256,323	35,323
Total operating revenues	<u>2,511,000</u>	<u>2,511,000</u>	<u>2,586,002</u>	<u>75,002</u>
Non-operating revenues:				
Investment earnings	21,500	21,500	37,887	16,387
Net increase (decrease) in the fair value of investments	1,000	1,000	(11,069)	(12,069)
Other	-	-	37,483	37,483
Total non-operating revenues	<u>22,500</u>	<u>22,500</u>	<u>64,301</u>	<u>41,801</u>
Total revenues	<u>2,533,500</u>	<u>2,533,500</u>	<u>2,650,303</u>	<u>116,803</u>
Expenses:				
Salaries and benefits	2,161,551	2,161,551	2,176,419	(14,868)
Supplies	99,000	99,000	67,719	31,281
Contractual and other services	1,886,375	1,886,375	2,225,856	(339,481)
Repairs and maintenance	299,582	299,582	332,798	(33,216)
Capital outlay	424,845	424,845	101,356	323,489
Total expenses	<u>4,871,353</u>	<u>4,871,353</u>	<u>4,904,148</u>	<u>(32,795)</u>
Excess (deficiency) of revenues over over expenses (budget basis) before transfers	(2,337,853)	(2,337,853)	(2,253,845)	84,008
Transfers:				
Transfers in	2,172,752	2,172,752	1,890,899	(281,853)
Transfers out	(10,632)	-	(700,787)	(700,787)
Excess (deficiency) of revenues over budget	<u>(175,733)</u>	<u>(165,101)</u>	<u>(1,063,733)</u>	<u>(898,632)</u>

CITY OF McALLEN, TEXAS
McALLEN CONVENTION CENTER FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
GAAP basis adjustments:				
Depreciation expense, not budgeted	\$ -	\$ -	\$ (1,608,267)	\$ (1,608,267)
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	<u>-</u>	<u>-</u>	<u>101,356</u>	<u>101,356</u>
Net income-GAAP basis	<u>\$ (175,733)</u>	<u>\$ (165,101)</u>	<u>\$ (2,570,644)</u>	<u>\$ (2,405,543)</u>

CITY OF McALLEN, TEXAS
PERFORMING ARTS CENTER FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Rentals	\$ 375,000	\$ 375,000	\$ 391,205	\$ 16,205
Concessions-other	545,000	545,000	598,417	53,417
Other services	<u>300,000</u>	<u>300,000</u>	<u>5,659</u>	<u>(294,341)</u>
Total operating revenues	<u>1,220,000</u>	<u>1,220,000</u>	<u>995,281</u>	<u>(224,719)</u>
Non-operating revenues:				
Intergovernmental	-	-	52,082,413	52,082,413
Investment earnings	<u>-</u>	<u>-</u>	<u>5,639</u>	<u>5,639</u>
Total non-operating revenues	<u>-</u>	<u>-</u>	<u>52,088,052</u>	<u>52,088,052</u>
Total revenues	<u>1,220,000</u>	<u>1,220,000</u>	<u>53,083,333</u>	<u>51,863,333</u>
Expenses:				
Supplies	55,000	55,000	30,755	24,245
Contractual and other services	847,730	847,730	789,434	58,296
Repairs and maintenance	<u>171,000</u>	<u>171,000</u>	<u>51,158</u>	<u>119,842</u>
Total expenses	<u>1,073,730</u>	<u>1,073,730</u>	<u>871,347</u>	<u>202,383</u>
Excess (deficiency) of revenues over over expenses (budget basis) before transfers	146,270	146,270	52,211,986	52,065,716
Transfers:				
Transfers in	<u>1,976,043</u>	<u>1,976,043</u>	<u>1,771,750</u>	<u>(204,293)</u>
Excess (deficiency) of revenues over budget	<u>2,122,313</u>	<u>2,122,313</u>	<u>53,983,736</u>	<u>51,861,423</u>
GAAP basis adjustments:				
Depreciation expense, not budgeted	\$ -	\$ -	\$ (766,785)	\$ (766,785)
Net income-GAAP basis	<u>\$ 2,122,313</u>	<u>\$ 2,122,313</u>	<u>\$ 53,216,951</u>	<u>\$ 52,628,208</u>

CITY OF McALLEN, TEXAS
McALLEN INTERNATIONAL AIRPORT FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Charges for services	\$ 2,446,983	\$ 2,446,983	\$ 2,648,482	\$ 201,499
Rentals	3,028,493	3,028,493	3,589,714	561,221
Other services	<u>1,126,072</u>	<u>1,126,072</u>	<u>136,405</u>	<u>(989,667)</u>
Total operating revenues	<u>6,601,548</u>	<u>6,601,548</u>	<u>6,374,601</u>	<u>(226,947)</u>
Non-operating revenues:				
Intergovernmental	4,871,039	4,871,039	2,392,868	(2,478,171)
Investment earnings	-	-	155,381	155,381
Net increase (decrease) in the fair value of investments				
fair value of investments	-	-	(63,044)	(63,044)
Other	<u>-</u>	<u>-</u>	<u>(98,974)</u>	<u>(98,974)</u>
Total non-operating revenues	<u>4,871,039</u>	<u>4,871,039</u>	<u>2,386,231</u>	<u>(2,484,808)</u>
Total revenues	<u>11,472,587</u>	<u>11,472,587</u>	<u>8,760,832</u>	<u>(2,711,755)</u>
Expenses:				
Salaries and benefits	1,953,871	1,953,871	1,722,456	(231,415)
Supplies	119,000	119,000	71,347	(47,653)
Contractual and other services	1,994,857	1,994,857	1,797,380	(197,477)
Repairs and maintenance	439,640	439,640	431,690	(7,950)
Capital outlay	<u>5,265,560</u>	<u>5,265,560</u>	<u>1,712,743</u>	<u>(3,552,817)</u>
Total administrative expenses	<u>9,772,928</u>	<u>9,772,928</u>	<u>5,735,616</u>	<u>(4,037,312)</u>
Non-departmental expenses (income):				
Interest and fiscal charges	<u>319,874</u>	<u>319,874</u>	<u>413,550</u>	<u>93,676</u>
Total non-departmental expenses	<u>319,874</u>	<u>319,874</u>	<u>413,550</u>	<u>93,676</u>
Total expenses	<u>10,092,802</u>	<u>10,092,802</u>	<u>6,149,166</u>	<u>(3,943,636)</u>
Excess (deficiency) of revenues over expenses (budget basis) before transfers	1,379,785	1,379,785	2,611,666	1,231,881

CITY OF McALLEN, TEXAS
McALLEN INTERNATIONAL AIRPORT FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	Variance with Final Budget Positive (Negative)
Transfers:				
Transfers out	<u>(1,114,597)</u>	<u>(1,114,597)</u>	<u>(1,114,597)</u>	<u>-</u>
Excess (deficiency) of revenues over budget	<u>265,188</u>	<u>265,188</u>	<u>1,497,069</u>	<u>1,231,881</u>
GAAP basis adjustments:				
Depreciation expense, not budgeted	\$ -	\$ -	\$ (4,701,434)	\$ (4,701,434)
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	<u>-</u>	<u>-</u>	<u>1,712,743</u>	<u>1,712,743</u>
Net income-GAAP basis	<u>\$ 265,188</u>	<u>\$ 265,188</u>	<u>\$ (1,491,622)</u>	<u>\$ (1,756,810)</u>

CITY OF McALLEN, TEXAS
McALLEN INTERNATIONAL TOLL BRIDGE FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Charges for services	\$ 11,954,010	\$ 11,954,010	\$ 11,856,205	\$ (97,805)
Rentals	2,418,359	2,418,359	2,587,122	168,763
Other	202,788	202,788	284,973	82,185
Total operating revenues	<u>14,575,157</u>	<u>14,575,157</u>	<u>14,728,300</u>	<u>153,143</u>
Non-operating revenues:				
Investment earnings	-	-	53,791	53,791
Other	-	-	86,424	86,424
Total non-operating revenues	<u>-</u>	<u>-</u>	<u>140,215</u>	<u>140,215</u>
Total revenues	<u>14,575,157</u>	<u>14,575,157</u>	<u>14,868,515</u>	<u>293,358</u>
Expenses:				
Administration:				
Salaries and benefits	269,982	269,982	325,564	(55,582)
Supplies	24,800	24,800	22,699	2,101
Contractual and other services	422,325	422,325	382,938	39,387
Repairs and maintenance	12,162	12,162	9,079	3,083
Capital outlay	2,401,105	2,401,105	1,656,641	744,464
Total administration	<u>3,130,374</u>	<u>3,130,374</u>	<u>2,396,921</u>	<u>733,453</u>
Operations :				
Salaries and benefits	1,468,225	1,468,225	1,246,157	222,068
Supplies	85,000	85,000	69,551	15,449
Contractual and other services	523,250	523,250	519,601	3,649
Repairs and maintenance	176,000	176,000	165,236	10,764
Total operations	<u>2,252,475</u>	<u>2,252,475</u>	<u>2,000,545</u>	<u>251,930</u>

CITY OF McALLEN, TEXAS
McALLEN INTERNATIONAL TOLL BRIDGE FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Non-departmental expenses:				
Liability insurance	\$ 23,171	\$ 23,171	\$ 23,171	\$ -
Interest and fiscal charges	35,086	35,086	27,335	7,751
Bond principal requirement	168,710	168,710	-	168,710
Other	3,568,338	3,568,338	3,727,282	(158,944)
Total non-departmental expenses	<u>3,795,305</u>	<u>3,795,305</u>	<u>3,777,788</u>	<u>17,517</u>
Total expenses	<u>9,178,154</u>	<u>9,178,154</u>	<u>8,175,254</u>	<u>1,002,900</u>
Excess (deficiency) of revenues over expenses (budget basis) before transfers	5,397,003	5,397,003	6,693,261	1,296,258
Transfers:				
Transfers out	<u>(6,352,154)</u>	<u>(6,352,154)</u>	<u>(6,623,332)</u>	<u>(271,178)</u>
Net transfers	<u>(6,352,154)</u>	<u>(6,352,154)</u>	<u>(6,623,332)</u>	<u>(271,178)</u>
Excess (deficiency) of revenues over budget	<u>(955,151)</u>	<u>(955,151)</u>	<u>69,929</u>	<u>1,025,080</u>
GAAP basis adjustments:				
Depreciation expense, not budgeted	-	-	(986,388)	(986,388)
Interest on board advances	-	-	631,458	631,458
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	<u>-</u>	<u>-</u>	<u>1,656,641</u>	<u>1,656,641</u>
Net income-GAAP basis	<u>\$ (955,151)</u>	<u>\$ (955,151)</u>	<u>\$ 1,371,640</u>	<u>\$ 2,326,791</u>

CITY OF McALLEN, TEXAS
ANZALDUAS INTERNATIONAL CROSSING FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Charges for services	\$ 3,491,078	\$ 3,491,078	\$ 3,555,823	\$ 64,745
Rentals	18,552	18,552	18,555	3
Other	34,449	34,449	126,288	91,839
Total operating revenues	<u>3,544,079</u>	<u>3,544,079</u>	<u>3,700,666</u>	<u>156,587</u>
Non-operating revenues:				
Investment earnings	1,300	133	30,426	30,293
fair value of investments	-	-	(1,201)	(1,201)
Other	-	-	8,653	8,653
Total non-operating revenues	<u>1,300</u>	<u>133</u>	<u>37,878</u>	<u>37,745</u>
Total revenues	<u>3,545,379</u>	<u>3,544,212</u>	<u>3,738,544</u>	<u>194,332</u>
Expenses:				
Administration:				
Salaries and benefits	220,389	220,389	221,505	(1,116)
Supplies	8,200	8,200	7,833	367
Contractual and other services	288,000	288,000	255,847	32,153
Repairs and maintenance	7,000	7,000	3,471	3,529
Capital outlay	273,000	273,000	52,170	220,830
Total administration	<u>796,589</u>	<u>796,589</u>	<u>540,826</u>	<u>255,763</u>
Operations :				
Salaries and benefits	356,440	356,440	271,961	84,479
Supplies	15,000	15,000	6,917	8,083
Contractual and other services	58,028	58,028	40,531	17,497
Repairs and maintenance	41,094	41,094	44,690	(3,596)
Total operations	<u>470,562</u>	<u>470,562</u>	<u>364,099</u>	<u>106,463</u>

CITY OF McALLEN, TEXAS
ANZALDUAS INTERNATIONAL CROSSING FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	Variance with Final Budget Positive (Negative)
Non-departmental expenses:				
Liability insurance	\$ 20,963	\$ 20,963	\$ 20,963	\$ -
Interest and fiscal charges	1,522,831	1,522,831	1,969,607	(446,776)
Interest on board advances	-	-	631,458	(631,458)
Bond related charges	-	-	162,302	(162,302)
Bond principal requirement	1,360,000	1,360,000	-	1,360,000
Total non-departmental expenses	<u>2,903,794</u>	<u>2,903,794</u>	<u>2,784,330</u>	<u>119,464</u>
Total expenses	<u>4,170,945</u>	<u>4,170,945</u>	<u>3,689,255</u>	<u>481,690</u>
Excess (deficiency) of revenues over expenses (budget basis) before transfers	(625,566)	(626,733)	49,289	676,022
Transfers:				
Transfers in	939,910	939,910	914,417	(25,493)
Transfers out	<u>(2,502)</u>	<u>(2,502)</u>	<u>(2,502)</u>	<u>-</u>
Net transfers	<u>937,408</u>	<u>937,408</u>	<u>911,915</u>	<u>(25,493)</u>
Excess (deficiency) of revenues over budget	<u>311,842</u>	<u>310,675</u>	<u>961,204</u>	<u>650,529</u>
GAAP basis adjustments:				
Depreciation expense, not budgeted	-	-	(1,533,466)	(1,533,466)
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	<u>-</u>	<u>-</u>	<u>52,170</u>	<u>52,170</u>
Net income-GAAP basis	<u>\$ 311,842</u>	<u>\$ 310,675</u>	<u>\$ (520,092)</u>	<u>\$ (830,767)</u>

CITY OF McALLEN, TEXAS
McALLEN EXPRESS FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Charges for services	\$ 510,525	\$ 510,525	\$ 546,642	\$ 36,117
Rentals	348,935	348,935	333,052	(15,883)
Other services	<u>266,952</u>	<u>266,952</u>	<u>58,758</u>	<u>(208,194)</u>
Total operating revenues	<u>1,126,412</u>	<u>1,126,412</u>	<u>938,452</u>	<u>(187,960)</u>
Non-operating revenues:				
Intergovernmental	1,664,452	1,664,452	1,376,065	(288,387)
Investment earnings	-	-	5,804	5,804
Increase in the fair value of investments	<u>-</u>	<u>-</u>	<u>(2,274)</u>	<u>(2,274)</u>
Total non-operating revenues	<u>1,664,452</u>	<u>1,664,452</u>	<u>1,379,595</u>	<u>(284,857)</u>
Total revenues	<u>2,790,864</u>	<u>2,790,864</u>	<u>2,318,047</u>	<u>(472,817)</u>
Expenses:				
Salaries and benefits	2,169,603	2,169,603	2,068,118	101,485
Supplies	49,629	49,629	40,207	9,422
Contractual and other services	737,705	737,705	716,859	20,846
Repairs and maintenance	<u>639,802</u>	<u>639,802</u>	<u>395,543</u>	<u>244,259</u>
Total expenses	<u>3,596,739</u>	<u>3,596,739</u>	<u>3,220,727</u>	<u>376,012</u>
Excess (deficiency) of revenues over expenses (budget basis) before transfers	(805,875)	(805,875)	(902,680)	(96,805)
Transfers:				
Transfers in	803,373	803,373	803,373	-
Transfers out	<u>(10,319)</u>	<u>(10,319)</u>	<u>(10,319)</u>	<u>-</u>
Net transfers	793,054	793,054	793,054	-
Excess (deficiency) of revenues over budget	<u>(12,821)</u>	<u>(12,821)</u>	<u>(109,626)</u>	<u>(96,805)</u>
GAAP basis adjustments:				
Depreciation expense, not budgeted	\$ -	\$ -	\$ (571,794)	\$ (571,794)
Net income-GAAP basis	<u>\$ (12,821)</u>	<u>\$ (12,821)</u>	<u>\$ (681,420)</u>	<u>\$ (668,599)</u>

CITY OF McALLEN, TEXAS
FLEET MATERIALS MANAGEMENT FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Non-departmental expenses:				
Liability insurance	\$ 1,600	\$ 1,600	\$ 1,600	\$ -
Other	-	-	(11,715)	(11,715)
Total non-departmental expenses	<u>1,600</u>	<u>1,600</u>	<u>(10,115)</u>	<u>(11,715)</u>
Total expenses	<u>3,755,472</u>	<u>3,755,472</u>	<u>3,937,001</u>	<u>(204,959)</u>
Excess (deficiency) of revenues over expenses (budget basis)	229,528	229,528	59,609	(169,919)
Transfers:				
Transfers out	-	-	(6,567)	(6,567)
Excess (deficiency) of revenues over budget	229,528	229,528	53,042	(176,486)
GAAP basis adjustments:				
Depreciation expense, not budgeted	-	-	(66,461)	(66,461)
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	-	-	3,364	3,364
Net income-GAAP basis	<u>\$ 229,528</u>	<u>\$ 229,528</u>	<u>\$ (10,055)</u>	<u>\$ (239,583)</u>

CITY OF McALLEN, TEXAS
EMPLOYEE BENEFITS FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Operating-contributions	\$ 10,463,223	\$ 10,139,662	\$ 9,998,757	\$ (140,905)
Non-operating revenues:				
Investment earnings	1,408	1,408	10,640	9,232
Net increase (decrease) in the				
Other	<u>222,094</u>	<u>22,094</u>	<u>1,333,263</u>	<u>1,311,169</u>
Total non-operating revenues	<u>223,502</u>	<u>23,502</u>	<u>1,343,903</u>	<u>1,320,401</u>
Total revenues	<u>10,686,725</u>	<u>10,163,164</u>	<u>11,342,660</u>	<u>1,179,496</u>
Expenses:				
Salaries and benefits	328,312	328,312	319,112	9,200
Supplies	3,000	3,000	3,606	(606)
Contractual and other services	1,783,928	1,782,180	1,872,087	(89,907)
Self insurance claims	9,970,577	9,970,577	11,610,788	(1,640,211)
Repairs and maintenance	-	-	-	-
Capital outlay	<u>-</u>	<u>1,748</u>	<u>-</u>	<u>1,748</u>
Total expenses	<u>12,085,817</u>	<u>12,085,817</u>	<u>13,805,593</u>	<u>(1,719,776)</u>
Excess (deficiency) of revenues over expenses (budget basis) before transfers	(1,399,092)	(1,922,653)	(2,462,933)	(540,280)
Transfers in	<u>1,998,749</u>	<u>2,322,310</u>	<u>2,322,311</u>	<u>1</u>
Excess (deficiency) of revenues over budget	<u>599,657</u>	<u>399,657</u>	<u>(140,622)</u>	<u>(540,279)</u>
GAAP basis adjustments:				
Depreciation expense, not budgeted	\$ -	\$ -	\$ (8,200)	\$ 8,200
Net income-GAAP basis	<u>\$ 599,657</u>	<u>\$ 399,657</u>	<u>\$ (148,822)</u>	<u>\$ (532,079)</u>

CITY OF McALLEN, TEXAS
RETIREE HEALTH INSURANCE FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	Variance with Final Budget Positive (Negative)
Revenues:				
Operating-contributions	\$ 1,422,370	\$ 1,422,370	\$ 605,850	\$ (816,520)
Non-operating revenues:				
Investment earnings	1,300	1,300	10,632	9,332
fair value of investments	-	-	(4,548)	(4,548)
Total non-operating revenues	<u>1,300</u>	<u>1,300</u>	<u>6,084</u>	<u>4,784</u>
Total revenues	<u>1,423,670</u>	<u>1,423,670</u>	<u>611,934</u>	<u>(811,736)</u>
Expenses:				
Contractual and other services	109,354	109,354	112,544	(3,190)
Self insurance claims	<u>863,000</u>	<u>863,000</u>	<u>656,134</u>	<u>206,866</u>
Total expenses	<u>972,354</u>	<u>972,354</u>	<u>768,678</u>	<u>203,676</u>
Excess (deficiency) of revenues over budget	<u>451,316</u>	<u>451,316</u>	<u>(156,744)</u>	<u>(608,060)</u>
Net income-GAAP basis	<u>\$ 451,316</u>	<u>\$ 451,316</u>	<u>\$ (156,744)</u>	<u>\$ (608,060)</u>

CITY OF McALLEN, TEXAS
RISK MANAGEMENT FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Operating-contributions	\$ 2,615,941	\$ 2,615,941	\$ 2,629,339	\$ 13,398
Non-operating revenues:				
Intergovernmental	-	-	16,265	16,265
Investment earnings	12,000	12,000	161,257	149,257
Net increase (decrease) in the fair value of investments	-	-	(32,405)	(32,405)
Other	150,000	150,000	115,354	(34,646)
Total non-operating revenues	<u>162,000</u>	<u>162,000</u>	<u>260,471</u>	<u>98,471</u>
Total revenues	<u>2,777,941</u>	<u>2,777,941</u>	<u>2,889,810</u>	<u>111,869</u>
Expenses:				
Salaries and benefits	406,421	406,421	268,211	138,210
Supplies	4,000	4,000	3,875	125
Contractual and other services	1,487,885	1,487,885	1,185,757	302,128
Self insurance	-	-	77,037	(77,037)
Repairs and maintenance	1,479	1,479	402	1,077
Capital outlay	1,000	1,000	-	1,000
Total expenses	<u>1,900,785</u>	<u>1,900,785</u>	<u>1,535,282</u>	<u>365,503</u>
Excess (deficiency) of revenues over expenses (budget basis) before transfers	877,156	877,156	1,354,528	477,372
Transfers out	<u>(1,500,000)</u>	<u>(1,500,000)</u>	<u>(1,500,000)</u>	<u>-</u>
Excess (deficiency) of revenues over budget	<u>(622,844)</u>	<u>(622,844)</u>	<u>(145,472)</u>	<u>477,372</u>
GAAP basis adjustments:				
Depreciation expense, not budgeted	<u>-</u>	<u>-</u>	<u>(3,604)</u>	<u>(3,604)</u>
Net income-GAAP basis	<u>\$ (622,844)</u>	<u>\$ (622,844)</u>	<u>\$ (149,076)</u>	<u>\$ 473,768</u>

CITY OF McALLEN, TEXAS
GENERAL DEPRECIATION FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Operating-charges for services	\$ 2,814,072	\$ 2,814,072	\$ 2,814,072	\$ -
Non-operating revenues:				
Investment earnings	-	-	204,324	204,324
Net increase (decrease) in the fair value of investments	-	-	(23,882)	(23,882)
Other	-	-	89,864	89,864
Total non-operating revenues	-	-	270,306	270,306
Total revenues	2,814,072	2,814,072	3,084,378	270,306
Expenses:				
Capital outlay	5,035,100	5,035,100	1,091,141	3,943,959
Total expenses	5,035,100	5,035,100	1,091,141	3,943,959
Excess (deficiency) of revenues over expenses (budget basis)	(2,221,028)	(2,221,028)	1,993,237	4,214,265
GAAP basis adjustments:				
Depreciation expense, not budgeted	-	-	(2,140,551)	(2,140,551)
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	-	-	1,091,141	1,091,141
Net income-GAAP basis	<u>\$ (2,221,028)</u>	<u>\$ (2,221,028)</u>	<u>\$ 943,827</u>	<u>\$ 3,164,855</u>

CITY OF McALLEN, TEXAS
PROPERTY & CASUALTY INSURANCE FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Operating-contributions	\$ 800,000	\$ 800,000	\$ 815,730	\$ 15,730
Non-operating revenues:				
Net increase (decrease) in the Other	-	-	81,174	81,174
Total non-operating revenues	-	-	81,174	81,174
Total revenues	<u>800,000</u>	<u>800,000</u>	<u>896,904</u>	<u>96,904</u>
Expenses:				
Salaries and benefits	69,841	69,841	62,005	7,836
Supplies	1,500	1,500	1,766	(266)
Contractual and other services	441,000	441,000	484,831	(43,831)
Self insurance	287,659	287,659	357,374	(69,715)
Repairs and maintenance	-	-	108	(108)
Total expenses	<u>800,000</u>	<u>800,000</u>	<u>906,084</u>	<u>(106,084)</u>
Excess (deficiency) of revenues over expenses (budget basis) before transfers	-	-	(9,180)	(9,180)
Excess (deficiency) of revenues over budget	-	-	(9,180)	(9,180)
Net income-GAAP basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (9,180)</u>	<u>\$ (9,180)</u>

Statistical Section

This part of the City of McAllen's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report related to the services the government provides and the activities it performs.

Other Information

Information that City considers useful to its citizens is included in this section.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year.

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**City of McAllen, Texas
Net Position by Component (1)
Last Ten Years
(accrual basis of accounting)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014*</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Governmental activities										
Net investment in capital assets	\$ 201,811,831	\$ 219,839,458	\$ 230,172,991	\$ 243,869,333	\$ 234,246,829	\$ 243,681,893	\$ 261,002,031	\$ 271,338,778	\$ 277,919,085	\$ 220,553,878
Restricted	55,854,614	47,710,091	29,019,666	32,491,873	33,420,883	33,151,044	23,333,654	24,007,134	23,545,092	22,963,251
Unrestricted	74,118,438	76,581,779	93,995,308	85,628,563	87,384,447	84,517,660	45,785,583	45,826,104	36,063,681	38,062,911
Total governmental activities net position	<u>\$ 331,784,883</u>	<u>\$ 344,131,328</u>	<u>\$ 353,187,965</u>	<u>\$ 361,989,769</u>	<u>\$ 355,052,159</u>	<u>\$ 361,350,597</u>	<u>\$ 330,121,268</u>	<u>\$ 341,172,016</u>	<u>\$ 337,527,858</u>	<u>\$ 281,580,040</u>
Business-type activities										
Net investment in capital assets	\$ 230,416,888	\$ 235,021,510	\$ 245,458,038	\$ 254,006,517	\$ 269,408,160	\$ 259,339,759	\$ 263,527,417	\$ 245,028,871	\$ 269,347,294	\$ 332,816,366
Restricted	45,494,800	52,423,804	27,626,738	28,751,369	49,320,757	50,319,574	54,776,089	53,275,318	61,516,830	63,635,870
Unrestricted	32,304,928	33,396,959	59,404,414	58,277,207	42,513,303	56,415,746	49,262,997	80,172,274	49,323,806	39,820,546
Total business-type activities net position	<u>\$ 308,216,616</u>	<u>\$ 320,842,273</u>	<u>\$ 332,489,190</u>	<u>\$ 341,035,093</u>	<u>\$ 361,242,220</u>	<u>\$ 366,075,079</u>	<u>\$ 367,566,503</u>	<u>\$ 378,476,463</u>	<u>\$ 380,187,930</u>	<u>\$ 436,272,782</u>
Primary government										
Net investment in capital assets	\$ 432,228,719	\$ 454,860,968	\$ 475,631,029	\$ 497,875,850	\$ 503,654,989	\$ 503,021,652	\$ 524,529,448	\$ 516,367,649	\$ 547,266,379	\$ 553,370,244
Restricted	101,349,414	100,133,895	56,646,404	61,243,242	82,741,640	83,470,618	78,109,743	77,282,452	85,061,922	86,599,121
Unrestricted	106,423,366	109,978,738	153,399,722	143,905,770	129,897,750	140,933,406	95,048,580	125,998,378	85,387,487	77,883,457
Total primary government activities net position	<u>\$ 640,001,499</u>	<u>\$ 664,973,601</u>	<u>\$ 685,677,155</u>	<u>\$ 703,024,862</u>	<u>\$ 716,294,379</u>	<u>\$ 727,425,676</u>	<u>\$ 697,687,771</u>	<u>\$ 719,648,479</u>	<u>\$ 717,715,788</u>	<u>\$ 717,852,822</u>

(1) As per GASB 63

* 2014 Restated per GASB 68

Source: Comprehensive Annual Financial Reports

City of McAllen, Texas
Changes in Net Position (1)
Last Ten Years
(accrual basis of accounting)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses										
Governmental activities:										
General government	\$ 21,534,637	\$ 20,045,996	\$ 17,117,884	\$ 21,733,177	\$ 22,505,316	\$ 20,817,432	\$ 35,315,069	\$ 26,748,778	\$ 38,778,497	\$ 43,779,576
Public safety	46,437,593	48,085,324	49,869,325	51,471,980	51,714,002	53,799,148	58,432,712	57,338,636	63,079,739	61,676,966
Highways and streets	19,206,764	20,408,868	19,540,947	18,068,891	22,060,953	19,620,592	20,457,888	23,018,428	24,136,943	21,126,938
Health and welfare	5,967,509	5,244,236	5,315,188	5,204,340	5,424,919	5,247,302	4,604,866	7,676,848	5,693,042	8,305,076
Culture and recreation	15,581,730	16,141,618	19,345,749	16,291,072	16,468,099	18,061,633	20,996,431	13,810,026	22,500,569	28,074,221
Interest on long-term debt	218,719	292,661	543,168	1,108,959	900,520	780,778	816,650	2,159,876	2,066,207	3,418,388
Total governmental activities expenses	108,946,952	110,218,703	111,732,261	113,878,419	119,073,809	118,326,885	140,623,616	130,752,592	156,254,997	166,381,165
Business-type activities:										
Water services	15,068,788	15,716,736	15,273,917	16,687,578	16,492,817	17,390,301	17,474,327	17,161,204	20,135,477	19,213,848
Sewer services	11,290,032	10,207,047	13,001,407	13,002,414	12,704,012	13,787,604	15,251,999	15,063,966	16,431,643	14,568,734
Sanitation services	12,862,854	12,550,573	13,146,685	13,522,383	13,808,444	14,799,650	15,756,027	16,352,417	17,976,533	18,110,918
Golf course services	1,423,536	1,435,269	1,534,412	1,468,387	1,464,808	1,451,413	1,401,051	1,365,580	1,448,965	1,449,564
Civic center services	441,880	441,900	475,155	452,980	398,739	423,632	438,233	417,072	162,176	154
Performing arts center services	-	-	-	-	-	-	-	-	-	1,638,310
Convention center services	4,619,870	4,960,887	5,311,447	5,223,853	4,970,522	5,097,875	5,591,643	5,660,315	6,400,139	6,259,718
Airport services	5,269,306	5,882,936	6,329,579	5,964,651	6,672,164	6,867,863	7,385,213	7,922,418	8,856,156	9,180,118
Transit services	802,198	936,081	1,019,435	1,153,729	1,155,996	1,314,193	965,054	1,432,186	1,551,484	1,688,647
Bus services	1,915,380	1,759,980	1,631,623	2,194,468	2,553,618	2,877,020	3,973,485	3,621,901	3,750,560	3,832,463
Anzalduas crossing	1,493,759	599,426	3,913,017	4,504,328	4,140,909	4,571,611	4,558,948	4,552,866	5,642,196	5,181,228
Bridge services	9,013,061	6,018,329	5,584,690	5,773,631	6,004,265	6,111,267	6,530,689	6,877,304	7,310,552	7,542,209
Total business-type activities expenses	64,200,664	60,509,164	67,221,367	69,948,402	70,366,294	74,692,429	79,326,669	80,427,229	89,710,881	88,665,911
Total primary government expenses	\$ 173,147,616	\$ 170,727,867	\$ 178,953,628	\$ 183,826,821	\$ 189,440,103	\$ 193,019,314	\$ 219,950,285	\$ 211,179,821	\$ 245,965,878	\$ 255,047,076
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 2,254,601	\$ 2,094,534	\$ 2,187,610	\$ 1,938,393	\$ 1,862,654	\$ 2,079,410	\$ 1,918,951	\$ 2,088,536	\$ 2,343,536	\$ 2,430,066
Public safety	4,058,995	3,849,128	3,665,263	4,922,835	7,358,779	4,358,385	4,366,315	7,394,577	3,991,057	4,320,581
Highways and streets	1,257,667	1,168,774	1,132,893	1,164,718	1,140,683	1,178,562	1,160,689	1,108,870	1,087,905	1,114,907
Health and welfare	525,182	526,815	123,730	85,343	241,620	308,515	271,722	414,699	366,471	446,902
Culture and recreation	924,944	935,219	975,677	1,032,525	1,206,028	1,187,176	1,213,111	1,202,362	1,363,071	1,278,037
Operating grants and contributions	2,022,022	2,016,915	1,955,046	3,326,439	2,579,065	3,592,660	2,736,600	1,961,190	2,090,002	4,474,280
Capital grants and contributions	7,441,811	3,984,011	7,871,082	7,152,106	5,065,923	4,306,512	5,303,435	3,406,289	4,127,471	4,715,841
Total governmental activities program revenues	18,485,222	14,575,396	17,911,301	19,622,359	19,454,752	17,011,220	16,970,823	17,576,523	15,369,513	18,780,614
Business-type activities:										
Charges for services:										
Water services	15,658,843	15,877,792	13,468,048	16,510,355	15,964,657	16,125,777	15,689,054	15,659,444	18,558,428	19,407,111
Sewer services	14,291,219	14,490,145	13,369,937	14,799,266	14,568,552	14,840,659	14,976,046	15,378,193	17,147,746	17,704,596
Sanitation services	14,706,767	15,103,546	15,431,922	15,903,096	16,669,790	16,738,683	16,968,558	17,398,629	18,220,367	19,230,472
Bridge services	14,447,459	12,916,479	12,816,588	13,194,421	14,559,743	14,902,453	15,747,749	13,600,185	14,512,742	14,728,300
Other	8,824,954	9,191,418	9,571,114	9,709,773	9,536,557	9,870,476	10,513,929	15,021,175	15,928,338	15,589,382
Operating grants and contributions	862,086	999,981	747,606	710,754	784,314	853,095	1,587,799	1,329,212	1,523,384	1,854,981
Capital grants and contributions	5,624,181	4,514,464	10,226,872	7,959,080	4,323,382	7,161,439	8,520,524	13,042,693	10,907,454	6,159,765
Total business-type activities program revenues	74,415,509	73,093,825	75,632,087	78,786,715	76,406,995	80,492,582	84,003,659	91,429,531	96,798,459	94,674,607
Total primary government program revenues	\$ 92,900,731	\$ 87,669,221	\$ 93,543,388	\$ 98,409,074	\$ 95,863,747	\$ 97,503,802	\$ 100,974,482	\$ 109,006,054	\$ 112,167,972	\$ 113,455,221

(Continued)

City of McAllen, Texas
 Changes in Net Position (1)
 Last Ten Years
 (accrual basis of accounting)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net (Expense) Revenue										
Governmental activities	\$ (90,461,730)	\$ (95,643,307)	\$ (93,820,960)	\$ (94,256,060)	\$ (99,619,057)	\$ (101,315,665)	\$ (123,652,793)	\$ (113,176,069)	\$ (140,885,484)	\$ (147,600,551)
Business-type activities	10,214,845	12,584,661	8,410,720	8,838,313	6,040,701	5,800,153	4,676,990	11,002,302	7,087,578	6,008,696
Total primary government net expense	\$ (80,246,885)	\$ (83,058,646)	\$ (85,410,240)	\$ (85,417,747)	\$ (93,578,356)	\$ (95,515,512)	\$ (118,975,803)	\$ (102,173,767)	\$ (133,797,906)	\$ (141,591,855)
General Revenues and Other Changes in Net Position										
Governmental activities										
Taxes										
Property taxes, levied for general purposes	\$ 30,840,205	\$ 32,183,867	\$ 33,061,162	\$ 32,631,332	\$ 33,445,701	\$ 32,783,760	\$ 35,037,958	\$ 39,050,045	\$ 40,459,314	\$ 42,975,582
Hotel occupancy taxes	4,079,224	3,514,817	3,470,995	3,257,935	3,503,985	4,784,757	5,343,765	5,479,719	5,253,476	4,946,155
Sales tax	58,893,175	54,669,746	53,550,307	54,652,192	58,407,779	60,825,866	61,331,004	63,758,787	61,301,698	59,488,228
Franchise taxes	6,475,882	6,266,684	6,130,317	6,349,157	6,348,331	6,457,397	6,707,787	6,613,745	6,716,262	6,801,740
Unrestricted investment earnings	5,720,841	4,308,531	1,087,577	944,557	675,810	123,546	938,877	1,077,441	1,354,865	1,477,050
Royalties	2,909,479	1,864,867	2,217,798	2,706,824	1,138,925	936,278	944,609	828,482	490,736	620,011
Contributions	-	-	-	-	-	-	-	-	-	22,969,640
Miscellaneous	2,407,391	2,250,367	382,604	1,223,334	1,727,591	1,188,002	718,857	4,332,402	5,179,301	1,503,250
Transfers	5,905,429	2,930,873	(610,088)	1,292,533	2,120,871	1,656,644	4,158,872	3,086,193	16,485,677	(49,128,923)
Total governmental activities	117,231,626	107,989,752	99,290,672	103,057,864	107,368,993	108,756,250	115,181,729	124,226,814	137,241,329	91,652,733
Business-type activities										
Unrestricted investment earnings	5,560,052	2,444,095	639,242	515,713	456,604	157,213	467,440	649,882	689,307	729,638
Gain on sale of capital assets	1,629,433	-	-	-	-	-	2,098,640	1,220,285	9,899,884	-
Miscellaneous	-	527,774	489,538	484,409	1,001	532,137	288,076	1,123,687	520,372	217,595
Recovery of development costs	-	-	-	-	-	-	-	-	-	-
Transfers	(5,905,429)	(2,930,873)	610,088	(1,292,533)	13,708,822	(1,656,644)	(4,158,872)	(3,086,193)	(16,485,677)	49,128,923
Total business-type activities	1,284,056	40,996	1,738,868	(292,411)	14,166,427	(967,294)	(1,304,716)	(92,339)	(5,376,114)	50,076,156
Total primary government	\$ 118,515,682	\$ 108,030,748	\$ 101,029,540	\$ 102,765,453	\$ 121,535,420	\$ 107,788,956	\$ 113,877,013	\$ 124,134,475	\$ 131,865,215	\$ 141,728,889
Change in Net Position										
Governmental activities	\$ 26,769,896	\$ 12,346,445	\$ 5,469,712	\$ 8,801,804	\$ 7,749,936	\$ 7,440,585	\$ (8,471,064)	\$ 11,050,745	\$ (3,644,155)	\$ (55,947,818)
Business-type activities	11,498,901	12,625,657	10,149,588	8,545,902	20,207,128	4,832,859	3,372,274	10,909,963	1,711,464	56,084,852
Total government net position	\$ 38,268,797	\$ 24,972,102	\$ 15,619,300	\$ 17,347,706	\$ 27,957,064	\$ 12,273,444	\$ (5,098,790)	\$ 21,960,708	\$ (1,932,691)	\$ 137,034

(1) As per GASB 63

(Concluded)

Source: Comprehensive Annual Financial Reports

Schedule 3

City of McAllen, Texas
Fund Balances - Governmental Funds
 Last Ten Years
 (modified accrual basis of accounting)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General Fund										
Nondspendable	\$ -	\$ -	\$ -	\$ 400,000	\$ 1,396,791	\$ 1,774,762	\$ 2,160,543	\$ 2,295,944	\$ 2,646,319	\$ 2,989,178
Reserved/Assigned	5,580,194	5,253,567	3,449,615	2,925,598	1,552,643	1,730,634	447,859	457,022	457,022	457,022
Unreserved/Unassigned	45,909,209	44,182,058	47,422,976	39,649,659	42,860,830	40,370,161	41,221,379	46,369,562	44,346,729	42,941,348
Total General Fund	\$ 51,489,403	\$ 49,435,625	\$ 50,872,591	\$ 42,575,257	\$ 45,810,264	\$ 43,875,557	\$ 43,829,781	\$ 49,122,528	\$ 47,450,070	\$ 46,387,548
All Other Governmental Funds										
Reserved-other purposes	\$ 34,502,750	\$ 27,576,520	\$ 38,291,958	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Reserved-debt service	104,000	134,456	175,923	-	-	-	-	-	-	-
Unreserved, reported in:										
Special revenue funds	3,088,393	2,866,137	792,646	-	-	-	-	-	-	-
Information technology fund	-	-	1,398,522	-	-	-	-	-	-	-
Development corporation fund	-	-	20,049,897	-	-	-	-	-	-	-
Capital projects funds	18,159,471	17,132,979	11,855,332	-	-	-	-	-	-	-
Nondspendable	-	-	-	352,716	352,716	352,716	-	-	27,064	53,659
Restricted	-	-	-	38,387,750	34,171,127	33,636,421	79,530,591	71,032,714	71,553,166	52,714,390
Committed	-	-	-	179,755	217,989	154,790	387,626	513,561	297,145	290,623
Assigned	-	-	-	12,054,227	8,459,646	9,090,061	5,741,676	4,451,033	2,989,333	5,412,080
Total all other governmental funds	\$ 55,854,614	\$ 47,710,092	\$ 72,564,278	\$ 50,974,448	\$ 43,201,478	\$ 43,233,988	\$ 85,659,893	\$ 75,997,308	\$ 74,866,708	\$ 58,470,752

**City of McAllen, Texas
Changes in Fund Balances - Governmental Funds
Last Ten Years
(modified accrual basis of accounting)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Revenues										
Taxes	\$ 99,953,473	\$ 96,848,195	\$ 96,048,168	\$ 97,069,725	\$ 101,438,055	\$ 105,293,773	\$ 107,695,530	\$ 114,763,015	\$ 113,666,622	\$ 114,111,851
Licenses and permits	1,591,862	1,393,010	1,331,758	1,373,972	1,536,902	1,429,150	1,447,712	1,613,397	1,808,701	1,994,947
Intergovernmental	4,868,657	4,304,941	7,277,287	8,801,979	6,734,270	6,782,631	7,376,849	3,502,500	2,760,398	7,783,963
Charges for services	5,417,637	5,249,637	5,350,634	4,867,779	5,026,625	5,279,159	5,220,385	5,767,795	6,001,013	6,354,554
Fines and forfeitures	2,240,518	2,170,771	1,901,986	3,185,630	5,422,628	2,548,733	2,556,904	5,415,137	1,808,320	1,788,568
Investment earnings	4,635,946	3,675,833	807,932	728,330	508,483	69,628	739,885	876,393	1,006,394	1,151,039
Other	7,389,981	3,265,362	3,591,386	3,979,302	2,686,826	2,101,208	1,784,518	4,348,725	4,710,326	5,863,023
Total revenues	126,098,074	116,907,749	116,309,151	120,006,717	123,353,789	123,504,282	126,821,783	136,286,962	131,761,774	139,047,945
Expenditures										
General government	18,604,824	19,969,671	16,942,447	20,836,539	19,601,840	19,550,411	34,649,924	25,333,902	35,773,536	53,158,214
Public safety	44,721,496	47,689,420	47,498,138	49,529,997	49,272,439	50,041,327	51,912,722	52,994,445	54,484,060	55,487,989
Highways and streets	12,365,458	14,983,473	12,496,418	11,827,035	18,169,966	13,414,722	13,318,011	10,782,403	16,486,478	13,314,445
Health and welfare	5,964,095	5,255,632	5,285,260	5,168,679	5,388,416	5,208,427	4,552,904	7,512,747	5,596,042	8,062,409
Culture and recreation	13,978,939	14,688,034	17,456,529	14,170,021	14,601,437	15,410,540	17,194,648	17,767,314	19,980,953	19,174,040
Capital outlay *	26,157,346	25,276,574	23,274,673	42,517,494	19,836,269	19,896,331	22,156,818	29,946,314	39,251,496	22,594,772
Debt service:										
Principal	435,000	2,855,000	511,213	5,560,741	2,530,000	2,645,000	2,765,000	19,853,534	4,765,000	4,830,000
Interest	199,993	319,116	178,148	1,510,338	1,012,256	896,365	774,407	3,803,374	2,567,009	4,017,840
Total expenditures	122,427,151	131,036,920	123,642,826	151,120,844	130,412,623	127,063,123	147,324,434	167,994,033	178,904,574	180,639,709
Excess of revenues over (under) expenditures	3,670,923	(14,129,171)	(7,333,675)	(31,114,127)	(7,058,834)	(3,558,841)	(20,502,651)	(31,707,071)	(47,142,800)	(41,591,764)
Other Financing Sources (Uses)										
Bond proceeds	-	-	29,030,000	-	-	-	54,230,001	15,035,000	29,620,000	20,835,000
Other	-	-	1,117,990	-	-	-	-	-	-	-
Transfers in	42,201,877	26,783,190	9,790,572	22,378,622	15,970,624	22,353,826	18,453,155	26,945,098	31,581,149	18,770,483
Bond Premium	-	-	-	-	-	-	3,493,907	1,281,031	-	445,587
Bond Discount	-	-	-	-	-	-	-	-	(160,520)	-
Transfers out	(36,296,448)	(22,852,317)	(9,900,660)	(20,751,659)	(13,849,753)	(20,697,182)	(13,544,283)	(15,923,896)	(16,700,887)	(15,917,784)
Total other financing sources (uses)	5,905,429	3,930,873	30,037,902	1,626,963	2,120,871	1,656,644	62,632,780	27,337,233	44,339,742	24,133,286
Net change in fund balances	\$ 9,576,352	\$ (10,198,298)	\$ 22,704,227	\$ (29,487,164)	\$ (4,937,963)	\$ (1,902,197)	\$ 42,130,129	\$ (4,369,838)	\$ (2,803,058)	\$ (17,458,478)
Debt service as a percentage of noncapital expenditures	0.66%	3.00%	0.69%	6.51%	3.20%	3.30%	2.83%	17.14%	5.25%	5.60%

* This excludes internal service funds treated as governmental funds for government-wide purposes.

Source: Comprehensive Annual Financial Reports

Schedule 5

City of McAllen, Texas
Tax Revenues by Source - Governmental Funds
Last Ten Years
(modified accrual basis of accounting)

<u>Fiscal Year</u>	<u>Property</u>	<u>Sales</u>	<u>Franchise</u>	<u>Hotel</u>	<u>2%</u>	<u>Total</u>
2008	\$ 30,505,191	\$ 58,893,175	\$ 6,475,882	\$ 4,079,225	\$ -	\$ 99,953,473
2009	32,396,948	54,669,746	6,266,684	3,514,817	-	96,848,195
2010	32,896,549	53,550,307	6,130,317	3,470,995	-	96,048,168
2011	32,810,441	54,652,192	6,349,157	3,257,935	-	97,069,725
2012	33,177,960	58,407,780	6,348,331	3,503,985	-	101,438,056
2013	33,225,753	60,825,866	6,457,397	3,978,186	806,571	105,293,773
2014	34,312,972	61,331,004	6,707,787	4,156,140	1,187,625	107,695,528
2015	38,910,760	62,939,971	6,613,748	4,262,268	1,217,452	113,944,199
2016	40,388,385	60,449,553	6,716,262	4,085,205	1,168,272	112,807,677
2017	42,875,727	58,621,552	6,801,740	3,845,907	1,100,249	113,245,175
Change 2008-2017	40.55%	-0.46%	5.03%	-5.72%	100.00%	13.30%

**City of McAllen, Texas
Taxable Sales by Category
Last Ten Years
(in Millions)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Retail	\$ 2,211	\$ 2,018	\$ 1,735	\$ 1,710	\$ 1,799	\$ 1,847	\$ 1,859	\$ 1,812	\$ 1,706 *	\$ 821
Services	170	153	114	170	181	195	207	224	201 *	102
Wholesale	76	68	70	100	112	108	118	123	127 *	63
Other	140	115	311	446	469	491	506	526	525 *	262
Total - All Industries	<u>\$ 2,597</u>	<u>\$ 2,354</u>	<u>\$ 2,374</u>	<u>\$ 2,426</u>	<u>\$ 2,561</u>	<u>\$ 2,640</u>	<u>\$ 2,687</u>	<u>\$ 2,685</u>	<u>\$ 2,559</u>	<u>\$ 1,248</u>

(1)

Other includes Agricultural/Forestry, Mining, Construction, Manufacturing, Transportation/Utilities, Financial Services, and Other

Percent Allocation of Taxable Sales - Retail Only

Building Materials	7%	6%	5%	6%	6%	5%	5%	6%	6%	6%
General Merchandise	32%	31%	28%	27%	28%	28%	28%	26%	25%	25%
Food Stores	5%	5%	6%	6%	6%	6%	6%	6%	7%	7%
Automotive	5%	5%	6%	6%	5%	5%	6%	5%	5%	6%
Clothing	17%	17%	15%	15%	16%	17%	17%	17%	16%	16%
Home Furnishings	12%	12%	13%	13%	13%	13%	12%	12%	12%	11%
Restaurants	13%	14%	17%	17%	17%	17%	17%	19%	20%	21%
Miscellaneous Retail	9%	10%	10%	10%	9%	9%	9%	9%	9%	8%
Total	<u>100%</u>									

(1) Represents only two quarters of fiscal year.

* Restated due to updated totals received from State Comptroller's Office.

Source: State Comptroller's Office

The State Comptroller's Office does not report detail of the Retail category at the city level due to confidentiality issues. The allocation presented, which is by MSA is intended to give some indication.

Schedule 7

City of McAllen, Texas
Assessed Value and Actual Value of Taxable Property (1)
Last Ten Fiscal Years

<u>Fiscal Year Ended September 30</u>	<u>Tax Roll Year</u>	<u>Residential Property</u>	<u>Commercial Property</u>	<u>Industrial Property</u>	<u>Minerals</u>	<u>Other</u>	<u>Less: Tax-Exempt Property</u>	<u>Total Net Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>
2008	2007	\$ 5,223,070,568	\$ 1,824,887,008	\$ 96,386,085	\$ 138,350,623	\$ 1,059,350,233	\$ 1,427,513,149	\$ 6,914,531,368	0.42
2009	2008	5,342,975,502	1,811,694,737	108,693,602	134,182,390	1,157,900,178	1,448,502,453	7,106,943,956	0.42
2010	2009	5,470,285,311	2,077,102,840	115,185,930	133,174,260	1,257,860,959	1,531,608,214	7,522,001,086	0.42
2011	2010	5,491,264,094	2,160,760,863	121,679,009	28,213,093	1,257,885,005	1,549,344,920	7,510,457,144	0.42
2012	2011	5,492,004,364	2,213,159,640	53,492,220	13,149,573	1,286,916,306	1,557,190,079	7,501,532,024	0.43
2013	2012	4,327,680,248	3,343,176,312	137,187,071	68,824,902	1,013,294,611	1,326,819,524	7,563,343,620	0.43
2014	2013	4,475,282,922	3,503,723,046	132,720,411	71,783,017	1,011,927,424	1,360,010,810	7,835,426,010	0.43
2015	2014	4,474,949,998	3,533,253,705	124,370,144	73,248,263	1,030,966,285	1,347,181,652	7,889,606,743	0.48
2016	2015	4,884,004,235	3,738,806,189	129,302,716	75,747,969	1,027,473,342	1,419,789,823	8,435,544,628	0.48
2017	2016	5,143,975,739	4,118,594,649	141,279,203	70,842,520	1,118,293,988	1,481,312,452	9,111,673,647	0.48

(1) The assessed value and actual value of properties is the same amount. The appraisal district appraises all property at market value. A column for the actual value is not reflected.

Source: City of McAllen Tax Office & Hidalgo County Appraisal District Tax Roll

Schedule 8

City of McAllen, Texas
 Direct and Overlapping Property Tax Rates
 Last Ten Fiscal Years
 (rate per \$100 of assessed value)

Fiscal Year Ended September 30	Tax Roll Year	City Direct Rates			Overlapping Rates								
		Basic Rate	General Obligation		McAllen	Sharlyland	School Districts			Hidalgo	Edinburg	Hidalgo County Drainage District No.1	Hidalgo County
			Debt Service	Total Direct			P.S.J.A	So. Tx College					
2008	2007	\$ 0.41	\$ 0.01	\$ 0.42	\$ 1.48	\$ 1.55	\$ 1.52	\$ 0.15	\$ 1.54	\$ 1.45	\$ 0.07	\$ 0.59	
2009	2008	0.41	0.01	0.42	1.15	1.19	1.21	0.15	1.32	1.12	0.07	0.59	
2010	2009	0.41	0.01	0.42	1.17	1.19	1.27	0.15	1.35	1.19	0.07	0.59	
2011	2010	0.41	0.01	0.42	1.17	1.19	1.27	0.15	1.35	1.19	0.07	0.59	
2012	2011	0.43	-	0.43	1.17	1.20	1.36	0.15	1.44	1.24	0.07	0.59	
2013	2012	0.43	-	0.43	1.17	1.29	1.36	0.15	1.56	1.24	0.08	0.59	
2014	2013	0.43	-	0.43	1.17	1.29	1.36	0.15	1.56	1.24	0.07	0.59	
2015	2014	0.43	0.04	0.48	1.17	1.34	1.36	0.19	1.53	1.24	0.10	0.59	
2016	2015	0.44	0.04	0.48	1.16	1.34	1.40	0.19	1.53	1.24	0.10	0.59	
2017	2016	0.43	0.05	0.48	1.16	1.38	1.39	0.19	1.47	1.24	0.10	0.58	

**City of McAllen, Texas
Principal Property Tax Payers
Current Year and Nine Years Ago**

<u>Taxpayer</u>	<u>2017</u>			<u>2008</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>
Simon Property Group	\$ 154,055,359	1	1.69%	\$ 51,534,550	3	0.75%
Rio Grande Regional Hospital	54,763,885	2	0.60%	67,737,830	2	0.98%
AEP Texas Central Co.	49,030,510	3	0.54%	27,952,980	7	0.40%
Universal Health Services	47,961,236	4	0.53%	84,776,312	1	0.01
Palms Crossing LP	42,660,947	5	0.47%	45,164,436	4	0.01
GE Engine Services	35,726,826	6	0.39%	-	-	0.00%
H E Butt Grocery Company	26,154,204	7	0.29%	23,046,726	8	0.33%
Weingarten Reality Investors	23,815,015	8	0.26%	-	-	-
McAllen Foreign Trade Zone	19,184,577	9	0.21%	-	-	-
Weingarten Las Tiendas JV	18,446,752	10	0.20%	-	-	-
Wal-Mart Stores Texas LP	-		n/a	38,185,145	5	0.55%
Texas State Bank	-		n/a	30,570,569	6	0.44%
Shell Western E&P	-		n/a	22,800,570	9	0.33%
inland Western McAllen Trenton	-		n/a	21,106,961	10	0.31%
	<u>\$ 471,799,311</u>		5.18%	<u>\$ 412,876,079</u>		5.97%

Data Source: City of McAllen - Tax Office

CITY OF McALLEN, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Fiscal Year	Tax Roll Year	Taxes Levied Within the Fiscal Year of the Levy	Adjustments to Levy in the Fiscal Year	Adjusted Taxes Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections	
					Amount	Percentage of Levy		Amount	Percentage of Levy
2008	2007	\$ 28,896,119	\$ 926,195	\$ 29,822,314	\$ 27,625,803	92.63%	\$ 2,089,309	\$ 29,715,112	99.64%
2009	2008	29,639,988	2,067,032	31,707,020	29,325,155	92.49%	2,249,520	31,574,675	99.58%
2010	2009	31,356,112	668,253	32,024,365	30,347,810	94.76%	1,498,948	31,846,758	99.45%
2011	2010	31,313,663	163,882	31,477,545	30,120,972	95.69%	1,183,544	31,304,516	99.45%
2012	2011	31,996,395	15,446	32,011,841	30,858,609	96.40%	984,398	31,843,007	99.47%
2013	2012	32,234,649	(21,260)	32,213,389	31,076,068	96.47%	874,486	31,950,554	99.18%
2014	2013	33,395,738	154,588	33,550,326	32,474,873	96.79%	761,973	33,236,846	99.07%
2015	2014	33,720,873	788,785	34,509,658	33,451,451	96.93%	675,811	34,127,262	98.89%
2016	2015	36,094,783	160,704	36,255,487	35,154,027	96.96%	485,044	35,639,071	98.30%
2017	2016	38,068,201	(88,080)	37,980,121	36,721,329	96.69%	-	36,721,329	96.69%

Source: City of McAllen Tax Office

CITY OF McALLEN, TEXAS
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years

Fiscal Year	Governmental Activities					Business-Type Activities						Total Primary Government	Percentage of Personal Income ^a	Per Capita ^a
	General Obligation Bonds	Combination Tax and Revenue Certificates of Obligation	Sales Tax Revenue Obligations	Tax Note	Lien Note	Water Revenue Bonds	Sewer Revenue Bonds	International Toll Bridge Bonds	Anzalduas International Crossing Bonds	Airport CO Bonds				
2008	\$ -	\$ -	\$ 250,000	\$ 3,975,000	\$ 2,400,000	\$ 29,204,808	\$ 41,052,206	\$ 1,060,000	\$ 39,765,941	\$ -	\$ 117,707,955	N/A	N/A	
2009	-	-	225,000	3,545,000	306,954	27,977,884	39,613,905	815,000	39,740,065	-	112,223,808	N/A	N/A	
2010	-	30,314,092	200,000	3,100,000	265,741	26,689,710	50,611,853	555,000	38,959,189	-	150,695,585	5.68%	7,381	
2011	-	28,007,122	175,000	-	-	25,346,586	66,519,751	285,000	38,143,312	-	158,476,771	N/A	N/A	
2012	-	25,365,152	150,000	-	-	23,915,534	70,995,579	-	37,297,436	9,495,000	167,218,701	6.43%	1,254	
2013	-	22,608,183	125,000	-	-	22,427,956	80,464,931	-	36,121,559	9,125,000	170,872,629	5.88%	1,244	
2014	42,380,000	30,845,000	100,000	-	-	20,891,827	76,956,249	-	34,891,417	8,750,000	214,814,493	7.47%	1,564	
2015	59,047,110	13,003,737	75,000	-	-	19,028,844	113,066,972	-	33,610,987	8,365,000	246,197,650	8.28%	1,823	
2016	55,272,893	35,837,855	5,120,000	-	-	21,257,589	103,266,578	-	32,274,488	7,970,000	260,999,403	8.45%	1,826	
2017	50,377,332	46,483,517	15,285,000	-	-	19,573,582	105,954,478	-	31,202,924	7,565,000	276,441,833	8.76%	1,903	

N/A Information not available

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

^aSee Schedule 16 for personal income and population data.

**CITY OF McALLEN, TEXAS
RATIO OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years**

Fiscal Year	General Obligation Bonds	Percentage of Actual Taxable Value of Property ^a	Per Capita ^b
2008	\$ -	\$ -	N/A
2009	-	-	N/A
2010	-	-	N/A
2011	26,860,000	0.36%	203
2012	24,355,000	0.32%	183
2013	21,735,000	0.29%	158
2014	73,225,000	0.93%	533
2015	72,050,847	0.91%	534
2016	91,110,748	1.08%	637
2017	96,860,849	1.06%	667

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

^aSee Schedule 7 for property value data.

^bSee Schedule 16 for population data.

CITY OF McALLEN, TEXAS
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
As of September 30, 2017

	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable*</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Hidalgo County	\$ 211,290,000	27.54%	\$ 58,189,266
McAllen Independent School District	90,131,000	99.28%	89,482,057
Sharyland Independent School District	108,184,999	27.21%	29,437,138
P.S.J.A Independent School District	339,910,000	12.24%	41,604,984
Hidalgo County Drainage District #1	129,300,000	28.69%	37,096,170
South Texas College	152,495,000	24.57%	37,468,022
Hidalgo Independent School District	34,427,000	26.83%	9,236,764
Edinburg Independent School District	133,345,000	3.87%	<u>5,160,452</u>
Subtotal, overlapping debt			307,674,853
City of McAllen (direct debt)	96,860,849	100.00%	<u>96,860,849</u>
Total direct and overlapping debt			<u>\$ 404,535,702</u>

*The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the entities' taxable assessed value that is with the City's boundaries and dividing the entities' total taxable assessed value.

Source: Information provided by Texas MAC - Municipal Advisory of Texas

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the property taxpayers of the City of McAllen.

City of McAllen, Texas
 Legal Debt Margin Information
 Last Ten Fiscal Years

Legal Debt Margin Calculation for Fiscal Year 2017

Assessed value	\$ 9,111,673,647
Debt limit (5% of assessed value)	455,583,682
Debt applicable to limit:	
General obligation bonds	96,860,849
Less: amount set aside for repayment of general obligation debt	<u>(1,052,179)</u>
Total net debt applicable to limit	<u>95,808,670</u>
Legal debt margin	<u>\$ 359,775,012</u>

	Fiscal Year									
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Debt limit	\$ 345,726,568	\$ 355,347,198	\$ 343,935,483	\$ 348,892,264	\$ 350,989,886	\$ 356,700,467	\$ 391,771,301	\$ 394,480,337	\$ 421,777,231	\$ 455,583,682
Total net debt applicable to limit	<u>-</u>	<u>685,351</u>	<u>32,164,571</u>	<u>26,630,593</u>	<u>24,086,715</u>	<u>21,466,714</u>	<u>72,940,390</u>	<u>68,167,809</u>	<u>90,478,043</u>	<u>95,808,670</u>
Legal debt margin	\$ 345,726,568	\$ 354,661,847	\$ 311,770,912	\$ 322,261,671	\$ 326,903,171	\$ 335,233,753	\$ 318,830,911	\$ 326,312,528	\$ 331,299,188	\$ 359,775,012
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.19%	10.32%	8.26%	7.37%	6.40%	22.88%	20.89%	27.31%	26.63%

Note: State statutes do not prescribe a debt limit; however, by custom,
 a practical economic debt limit of 5% of the assessed valuation is used.

**CITY OF McALLEN, TEXAS
PLEGDED-REVENUE COVERAGE
Last Ten Fiscal Years**

Fiscal Year	Water Revenue Bonds						Sewer Revenue Bonds					
	Total Revenues (a)	Less: Operating Expenses (b)	Net Available Revenue	Debt Service		Coverage	Total Revenues (a)	Less: Operating Expenses (b)	Net Available Revenue	Debt Service		Coverage
				Principal	Interest					Principal	Interest	
2008	\$ 17,578,762	\$ 11,300,642	\$ 6,278,120	\$ 988,400	\$ 1,191,688	2.88	\$ 16,288,846	\$ 6,363,341	\$ 9,925,505	\$ 776,600	\$ 2,049,023	3.51
2009	17,273,180	11,989,744	5,283,436	1,188,250	1,136,605	2.27	15,806,052	5,173,309	10,632,743	1,361,750	2,000,014	3.16
2010	14,171,787	11,485,174	2,686,613	1,249,500	1,075,460	1.16	13,625,200	7,403,312	6,221,888	1,425,500	1,934,911	1.85
2011	17,171,510	12,654,063	4,517,447	1,383,900	1,348,650	1.65	15,035,929	7,364,113	7,671,816	2,616,100	1,446,363	1.89
2012	16,572,667	12,081,927	4,490,740	1,448,903	1,294,300	1.64	14,724,233	7,392,664	7,331,569	2,771,097	1,376,273	1.77
2013	16,634,518	12,613,800	4,020,718	1,514,610	1,227,162	1.47	14,899,235	8,092,635	6,806,600	3,313,390	1,386,497	1.45
2014	16,269,236	12,315,395	3,953,841	1,583,751	1,160,204	1.44	15,128,924	8,138,492	6,990,432	3,594,249	1,327,371	1.42
2015	16,864,143	11,974,407	4,889,736	1,649,458	1,016,999	1.83	15,590,842	7,687,962	7,902,880	4,486,542	1,116,563	1.41
2016	19,180,636	14,454,458	4,726,178	1,316,800	824,172	2.21	17,374,694	8,861,585	8,513,109	4,049,200	1,440,048	1.55
2017	20,002,527	14,207,848	5,794,679	1,385,850	751,288	2.71	18,015,632	8,574,078	9,441,554	4,161,150	1,428,355	1.69

Note: (a) Includes operating revenues and non-operating revenues

(b) Operating expenses do not include interest, depreciation, or amortization expenses.

**CITY OF McALLEN, TEXAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Years**

Year	Estimated Population	Personal Income (thousands of dollars)	Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate
2008	132,075	\$ 2,504,009	\$ 18,959	29.5	25,047	5.30%
2009	133,197	Not Available	Not Available	*	25,154	7.50%
2010	129,877	2,651,569	20,416	32.2	25,164	7.40%
2011	132,338	Not Available	Not Available	N/A	25,263	8.20%
2012	133,333	2,598,660	19,490	30.7	25,310	7.80%
2013	137,608	2,906,693	21,123	32.5	24,500	10.70%
2014	137,358	2,874,354	20,926	32.0	25,217	8.50%
2015	138,925	2,974,384	21,410	32.5	24,692	4.90%
2016	142,940	3,087,504	21,600	32.5	24,330	5.20%
2017	145,249	3,155,680	21,726	32.4	23,721	4.80%
	(A)	(B)		(C)	(D)	(E)

SOURCE:

- (A) U.S Census Bureau-2015 and local estimates; 2010 Official U.S. Census
- (B) U.S Census Bureau-2015 community survey profile.
- (C) U.S Census Bureau-2015 community survey profile.
- (D) McAllen Independent School District
- (E) U. S. Bureau of Labor Statistics

**City of McAllen, Texas
Principal Employers in the Area
Current Year and Nine Years Ago**

<u>Employer</u>	<u>2017</u>			<u>2008</u>			<u>Percentage of Total City Employment</u>
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employer</u>	<u>Employees</u>	<u>Rank</u>	
HEB	4,200	1	6.90%	McAllen Independent School District	3,900	1	6.88%
McAllen Independent School District	3,416	2	5.61%	McAllen Medical Center	2,500	2	4.41%
South Texas College	2,321	3	3.81%	Doctors Hospital At Renaissance	2,400	3	4.23%
Doctors Hospital at Renaissance	2,000	4	3.28%	City of McAllen	1,800	4	3.17%
City of McAllen	1,800	5	2.96%	South Texas College	1,546	5	2.73%
McAllen Medical Center	1,400	6	2.30%	Rio Grande Regional Hospital	1,100	6	1.94%
Teleperformance	1,200	7	1.97%	Penncro & Associates	650	7	1.15%
International Bank of Commerce	1,200	8	1.97%	Wal Mart	600	8	1.06%
Rio Grande Regional Hospital	1,069	9	1.76%	International Bank of Commerce	550	9	0.97%
Wal-Mart	1,000	10	1.64%	Texas State Bank	400	10	0.71%
Total	<u>19,606</u>		<u>32.19%</u>		<u>15,446</u>		<u>27.24%</u>
	(A)		(B)		(C)		(C)

Source:

(A) McAllen Economic Development Corporation (MEDC)

(B) Texas Workforce Commission for total city employment - 60,909

(C) City of McAllen CAFR Fiscal Year 2008

CITY OF McALLEN, TEXAS
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM,
Last Ten Fiscal Years

Function/Program	full time only									
Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Government	185	182	182	188	189	192	192	196	199	200
Public Safety:										
Police:										
Officers	275	275	275	275	281	285	285	285	285	285
Civilians	136	136	143	143	140	136	136	143	144	144
Fire:										
Fire fighters and officers	163	164	164	164	167	167	167	167	167	169
Civilians	13	13	13	12	11	11	11	12	12	14
Other	56	56	56	56	55	56	56	62	63	66
Highways and streets	112	100	100	96	97	97	97	98	93	94
Health and welfare	24	24	25	25	25	26	26	25	25	26
Culture and Recreational	187	186	186	189	192	195	195	197	202	205
Downtown Services	15	17	17	17	17	16	16	16	16	16
Water services	131	135	135	135	138	137	137	137	138	134
Sewer services	81	81	81	81	82	84	84	85	87	89
Sanitation	133	136	136	138	145	148	148	153	159	161
Golf Course	12	12	12	12	15	12	12	12	12	12
Convention Center	38	38	38	37	38	38	38	39	45	48
Airport	38	38	38	38	39	41	41	38	37	37
Transit terminal	12	12	12	12	13	8	8	8	8	8
Express transit	21	22	22	29	30	47	47	47	47	47
Bridge	31	33	33	33	44	32	32	41	42	41
Anzalduas Bridge	-	10	12	13	13	10	10	13	13	13
Fleet Services	25	25	25	21	24	21	21	26	26	26
Employee benefits	5	5	5	5	5	5	5	5	6	6
Risk Management	5	5	5	6	6	7	7	7	7	7
Total	1,698	1,705	1,715	1,725	1,766	1,771	1,771	1,812	1,833	1,848

Source: City's Budget Document

**CITY OF McALLEN, TEXAS
OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years**

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public Safety										
Police										
Number of employees-commissioned	267	262	270	275	280	281	285	285	285	289
Number of service calls	153,970	162,273	166,653	162,250	157,884	147,528	144,761	152,303	144,761	140,632
Fire										
Number of firemen	160	170	158	164	160	167	167	167	167	167
Total number of alarm responses	4,434	4,391	5,000	4,500	5,711	5,949	5,500	6,674	6,696	7,344
Code enforcement										
Number of employees	21	21	20	19	20	20	20	22	12	18
Number of building permits	1,341	1,308	1,562	1,584	1,869	1,671	1,562	1,559	1,551	1,548
Development services										
Street Resurfacing (linear miles)	28	29	21	25	10	26	48	42	33	36
Sidewalk Construction (linear feet)	36,960	37,100	11,480	10,560	23,930	7,920	1,065	29,304	3,368	5,887
Cultural and recreational										
Parks and recreation										
Participants in special event programs	458,250	425,000	93,250	440,000	440,000	245,000	104,500	360,000	360,000	367,900
Participants in athletic programs	16,400	6,800	17,045	7,500	14,500	16,000	8,145	518	10,860	13,819
Participants in after school programs	3,200	3,100	2,053	1,800	2,200	1,800	1,648	827	1,195	1,313
Library-main										
Volumes in collection	351,950	349,117	359,809	414,135	320,043	323,019	281,643	324,932	323,822	336,396
Water and sewer system										
Number of water customers	40,876	41,607	42,052	42,792	43,306	44,068	44,708	45,830	46,201	46,780
Number of sewer customers	36,229	37,062	37,521	38,184	38,563	39,247	39,802	40,996	40,912	41,660
Average daily water consumption (gallons)	23,737,233	23,860,020	19,654,727	24,508,796	25,867,849	25,952,225	23,953,301	21,000,000	22,303,830	20,302,000
Maximum storage capacity (gallons) #2 plant	7,900,000	7,900,000	7,900,000	7,900,000	7,900,000	7,900,000	7,900,000	7,900,000	7,750,000	7,750,000
Maximum storage capacity (gallons)-north plant	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,250,000	4,250,000
Rainfall (inches)	27.80	9.65	38.00	24.66	17.88	14.39	24.43	21.22	17.80	10.62
Sanitation										
Refuse collected (tons)	28,695	29,080	29,500	30,000	29,395	122,499	127,562	138,149	143,225	137,834
Bulky/brush pickups (tons)	67,274	19,879	5,500	4,703	30,527	44,187	22,265	30,410	34,586	26,131
Recyclables collected (tons)	8,030	3,926	3,791	4,525	5,235	5,476	4,323	4,323	5,200	5,503
Golf course										
Total number of rounds	42,219	43,803	44,153	41,308	40,977	39,759	36,859	40,447	42,484	35,569

Source: City Departments
Estimates: Fiscal Year 2017

CITY OF McALLEN, TEXAS
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016
Public Safety									
Police stations	1	1	1	1	1	1	1	1	1
Police sub-stations	6	6	7	7	7	7	6	7	2
Fire stations	6	7	7	7	7	7	7	7	7
Fire hydrants	3,800	3,994	3,984	3,988	4,000	4,000	4,200	4,200	4,769
Development Services									
City area:									
Square miles	48.7	48.8	48.7	48.7	49.6	49.6	49.8	54.5	57.9
Acres	31,169	31,222	31,169	31,169	31,733	31,747	31,898	34,864	37,064
Streets- paved (miles)	565	495	486	487	464	464	480	540	1061
Cultural and Recreational									
Developed parks (acres)	668	362	866	705	728	577	600	615	662
Parks (acres)-undeveloped	487	410	481	474	417	488	398	382	654
Swimming pools	4	4	4	4	4	4	4	4	4
Tennis courts	25	15	24	24	24	24	26	26	26
Lighted baseball diamonds/athletic fields	17	112	8	12	12	12	12	12	16
Municipal golf (18-hole course)	1	1	1	1	1	1	1	1	1
Water and Sewer									
Water mains (miles)	703	706	706	803	714	714	1,046	738	722
Sanitary sewers (miles)	489	489	489	503	489	500	500	535	540
Storm (miles)	268	283	273	273	315	315	315	315	239

(1) Revised by engineering.

Source: City Departments

**CITY OF MCALLEN, TEXAS
MISCELLANEOUS STATISTICAL DATA**

Section I--water rates

The rate charged for water furnished and consumed under the standard water rate schedule by Section 106-82 of the City Ordinance, amended September 25, 2017 to all classes of customers is as follows:

Inside City Minimum rate	(1) Commodity Rate
\$8.45	

(1) Per 1,000 gallons or any part thereof as follows: Residential-\$1.35/1,000 gallons for the first 7,999 gallons; plus \$1.65/1,000 for consumption between 8,000 and 12,999 gallons; plus \$1.85 for consumption between 13,000 gallons to 17,999; and \$1.95 per 1,000 thereafter.

Commercial, Multi-family, and Industrial-\$1.35/1,000 gallons for the first 12-month average base consumption; plus \$1.85/1,000 for consumption over the 12-month average base consumption.

Sprinkler-\$1.85/1,000 gallons

Section II--Estimated unaccounted gallons of water

<u>Class of customers</u>	<u>Number</u>	<u>Usage (gallons)</u>
Residential	39,295	4,756,781,900
Commercial	7,329	3,663,708,600
Industrial	156	318,581,400
Number of gallons shown to have passed through the master meters at the City's plants #2 and #3 during the period		9,680,470,000
Number of gallons billed		(8,739,071,900)
Estimated water used in fire hydrant testing, etc.		(49,000,000)
Estimated number of gallons unaccounted due to breaks, leaks, etc.		892,398,100

Single Audit Section

This section contains information regarding grant activity, which was audited under the guidelines of the Uniform Guidance and Texas standards.

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT
AUDITING STANDARDS***

Grant Thornton LLP
700 Milam Street, Suite 300
Houston, Texas 77002
T 832-476-3600
www.GrantThornton.com

The Honorable Mayor, Members of the City Commission
and Public Utility Board of Trustees
City of McAllen, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of McAllen, Texas (the "City") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 19, 2018.

Our report includes a reference to other auditors who audited the financial statements of the Firemen's Relief and Retirement Fund, a fiduciary fund of the City of McAllen, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in the City's internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Houston, Texas
March 19, 2018



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE AND STATE OF TEXAS SINGLE AUDIT CIRCULAR**

Grant Thornton LLP
700 Milam Street, Suite 300
Houston, Texas 77002
T 832-476-3600
www.GrantThornton.com

The Honorable Mayor, Members of the City Commission
and Public Utility Board of Trustees
City of McAllen, Texas

Report on compliance for each major federal and state program

We have audited the compliance of the City of McAllen, Texas (the “City”) with the types of compliance requirements described in the U.S. Office of Management and Budget’s *OMB Compliance Supplement* and the State of Texas Single Audit Circular that could have a direct and material effect on each of its major federal and state programs for the year ended September 30, 2017. The City’s major federal and state programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s responsibility

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to the City’s federal and state programs.

Auditor’s responsibility

Our responsibility is to express an opinion on compliance for each of the City’s major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State of Texas Single Audit Circular. Those standards, the Uniform Guidance, and the State of Texas Single Audit Circular require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of the City’s compliance.



Opinion on each major federal and state program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended September 30, 2017.

Report on internal control over compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal and state program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the State of Texas Single Audit Circular, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in the City's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and State of Texas Single Audit Circular. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Houston, Texas
March 19, 2018

CITY OF McALLEN, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2017

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grantor/ Pass-Through Grantor's Number	Passed Through To Subrecipients	Disbursements/ Expenditures
U.S. Department of Housing and Urban Development				
Direct Program:				
Community Development Block Grant:				
41st Year Entitlement Grant	14.218	CB15MC48506	\$ -	\$ 335,829
42nd Year Entitlement Grant	14.218	CB16MC48506	496,220	932,375
Home Investment Partnerships Programs	14.239	MI3MC480506	199,429	199,429
Home Investment Partnerships Programs	14.239	MI4MC480506	168,181	192,002
Total U.S. Department of Housing and Urban Development Program			863,830	1,659,635
U.S. Department of Transportation				
Direct Program:				
Airport Improvement Program	20.106	3-48-0144-42	-	58,708
Airport Improvement Program	20.106	3-48-0144-46	-	430,583
Airport Improvement Program	20.106	3-48-0144-47	-	575,980
Federal Transit Formula Grant *	20.507	TX-90-X778-00	-	2,879
Federal Transit Formula Grant *	20.507	TX-90-X830-01	-	23,415
Federal Transit Formula Grant *	20.507	TX-90-X906-00	-	13,086
Federal Transit Formula Grant *	20.507	TX-90-X937-00	-	1,592
Federal Transit Formula Grant *	20.507	TX-90-Y017-00	-	620,459
Federal Transit Formula Grant *	20.507	TX-90-Y048-00	-	218,492
Federal Transit Formula Grant *	20.507	TX-2016-035-00	-	465,049
Federal Transit Formula Grant *	20.507	TX-90-Y145-00	-	610,882
Federal Transit Job Access & Reverse Community Program *	20.516	TX-37-X085-00	-	30,832
Federal Highway Administration				
Passed through Texas Department of Transportation				
Highway Planning and Construction	20.205	STP 2014 (102) TE	-	469,710
Recreational Trails Program	20.219	RT013016	-	30,400
State and Community Highway Safety	20.600	2017-McAllenP-S-1YG-0027	-	118,010
State and Community Highway Safety	20.616	2017-McAllenPD-IDM-00041	-	16,000
State and Community Highway Safety	20.616	2017-McAllenPD-CIOT-00031	-	3,043
Total U.S. Department of Transportation			\$ -	\$ 3,689,120

* Indicates clustered program under Uniform Guidance

CITY OF McALLEN, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2017

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor/ Pass-Through Grantor's Number	Passed Through To Subrecipients	Disbursements/ Expenditures
U.S. Department of Justice				
Direct Program:				
Edward Byrne Memorial Justice Assistance Grant	16.738	2016-DJ-BX-0119	\$ -	\$ 13,864
Equitable Sharing Program	16.922		-	2,333,870
Total U.S. Department of Justice			-	2,347,734
U.S. Environmental Protection Agency				
Pass through Texas Water Development Board				
Clean Water State Revolving Fund	66.458	TWDB #73640	-	3,180,356
Clean Water State Revolving Fund	66.458	TWDB #73659	-	7,403,087
Clean Water State Revolving Fund	66.458	TWDB #73731	-	1,871,856
Total U.S. Environmental Protection Agency			-	12,455,299
U.S. Department of Homeland Security				
Emergency Management Performance Grants	97.042	17TX-EMPG-0713	-	43,027
Pass through Division of Emergency Management				
Disaster Grants - Public Assistance (Hurricane Harvey)	97.036		-	672,889
Pass through Texas Engineering Extension Service				
Disaster Grants - Public Assistance (Hurricane Harvey)	97.036		-	25,258
Pass through Office of the Governor				
Homeland Security Grant Program	97.067	3299601	-	109,725
Total U.S. Department Homeland Security			-	850,899
U.S. Department of Health and Human Services				
Food and Drug Administration Research	93.103	G-T-1509-02887	-	3,000
Food and Drug Administration Research	93.103	G-SP-1611-03923	-	2,500
Total U.S. Department of Health and Human Services			-	5,500
U.S. Department of Interior Fish and Wildlife Service				
Migratory Bird Monitoring, Assessment and Conservation	15.655	1301.15.048254	-	29,679
Total U.S. Department of Interior Fish and Wildlife Service			-	29,679
U.S. General Services Administration				
Passed through Texas Facilities Commission/Federal Surplus Prog				
Donation of Federal Surplus Personal Property	39.003	12750	-	79,442
Total U.S. General Services Administration			-	79,442
Total Expenditures of Federal Awards			\$ 863,830	\$ 21,117,308

CITY OF McALLEN, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2017

	<u>Grantor's Number</u>	<u>Passed Through To Subrecipients</u>	<u>Disbursements/ Expenditures</u>
Texas Agencies			
Texas State University	Tobacco Compliance 2017	\$ -	\$ 10,350
Texas State Library and Archives Commission	475-17017	-	10,000
Texas Office of the Attorney General			
2017 Victim Coordinator and Liaison Grant	1771955	-	36,344
2018 Victim Coordinator and Liaison Grant	1880392	-	3,427
Texas Office of the Governor			
CJD - Texas Anti-Gang Grant	3060501	-	275,952
CJD - Texas Anti-Gang Grant	3060502		2,150,891
Texas Department of Transportation:			
Routine Airport Maintenance Program	CSJ# MI721MCAL	-	50,000
Pass Through - City of Brownsville			
Auto Theft Prevention 2017	SA00T011004117	-	276,952
Auto Theft Prevention 2018	SA00T011004118	-	30,418
Texas Parks and Wildlife			
Youth Baseball Complex	50-000456	-	365,607
Texas Parks and Wildlife			
War Memorial of Texas	50-000482	-	26,515
Equitable Sharing Program		-	193,107
		<u>-</u>	<u>3,429,563</u>
Total Expenditures of State Awards		-	3,429,563
		<u>\$ 863,830</u>	<u>\$ 24,546,871</u>
Total Expenditures of federal and state awards			

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CITY OF McALLEN, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2017

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards (the "Schedule") includes the federal award of activities of City of McAllen, Texas (City), under programs of the federal government for the year ended September 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements of Federal Awards* (Uniform Guidance) and the State of Texas Uniform Grant Management Standards. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability. Enterprise Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Federal and state grant funds are generally considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received, they are recorded as unearned revenues until earned.

CITY OF McALLEN, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2017

3. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the City of McAllen, Texas and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2

U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements of Federal Awards* (Uniform Guidance) and the State of Texas Single Audit Circular. Because this schedule presents only a selected portion of the operations of the City of McAllen, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of McAllen.

4. Indirect Cost Rate

The City of McAllen has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	_____	yes	<u> X </u>	no
Significant deficiencies identified that are not considered to be material weaknesses?	_____	yes	<u> X </u>	none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal and State of Texas Awards

Internal control over major programs:

Material weakness(es) identified?	_____	yes	<u> X </u>	no
Significant deficiencies identified that are not considered to be material weaknesses?	_____	yes	<u> X </u>	none reported

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with:

Uniform Guidance and State of Texas Single Audit Circular _____ yes X no

Federal - CFDA Number
20.106
66.458

Name of Federal Programs
Airport Improvement Program
Capitalization Grants for Clean Water State
Revolving Funds

State - Contract Number
N/A
N/A
N/A

Name of State Programs
Auto Theft Prevention
Texas Anti-Gang Grant
Youth Baseball Complex

Dollar threshold used to distinguish between Type A and type B programs:

Federal	\$750,000
State of Texas	\$300,000

Auditee qualified as low-risk auditee?

Federal	<u> X </u>	yes	_____	no
State of Texas	<u> X </u>	yes	_____	no

SECTION II – FINANCIAL STATEMENT FINDINGS

The audit disclosed no findings required to be reported.

SECTION III – FEDERAL and STATE AWARD FINDINGS AND QUESTIONED COSTS

The audit disclosed no findings required to be reported.



CITY OF
McALLEN, TEXAS

**Comprehensive Annual
Financial Report**

**For the Fiscal Year Ended
September 30, 2017**

Susan Lozano, Finance Director

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiencies identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal and State of Texas Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes X no

Significant deficiencies identified that are not considered to be material weaknesses? _____ yes X none reported

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with:

Uniform Guidance and State of Texas Single Audit Circular _____ yes X no

Federal - CFDA Number

20.106
66.458

Name of Federal Programs

Airport Improvement Program
Capitalization Grants for Clean Water State
Revolving Funds

State - Contract Number

N/A
N/A
N/A

Name of State Programs

Auto Theft Prevention
Texas Anti-Gang Grant
Youth Baseball Complex

Dollar threshold used to distinguish between Type A and type B programs:

Federal \$750,000
State of Texas \$300,000

Auditee qualified as low-risk auditee?

Federal X yes _____ no
State of Texas X yes _____ no

SECTION II – FINANCIAL STATEMENT FINDINGS

The audit disclosed no findings required to be reported.

SECTION III – FEDERAL and STATE AWARD FINDINGS AND QUESTIONED COSTS

The audit disclosed no findings required to be reported.

InterimFinancialInformation N/A

Outstanding Debt

Yes, General obligation debt: Y

Yes, Revenue debt: Y

Yes, Authorized but unissued debt: N

No: N

City of McAllen--All Governmental Bonds Combined																					
Original Amount	Development Corp of McAllen \$5,115,000		Development Corp of McAllen \$10,165,000		Development Corp of McAllen \$5,120,000		\$15,035,000 GO Refunding 2015		\$42,380,000 GO 2014		\$11,850,000 CO 2014		TIRZ \$24,500,000 CO Taxable 2016		Local Gov Finance Corp \$10,670,000 Consent Revenue Bd. Sec 2017		\$5,890,000 CO Taxable 2018		Combined Totals		
	Yr	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	1	\$ -	\$ 181,335	\$ -	\$ 353,443	\$ -	\$ 145,500	\$ 3,145,000	\$ 143,825	\$ 1,640,000	\$ 1,506,775	\$ 480,000	\$ 377,819	\$ -	\$ 871,627	\$ -	\$ 376,881	\$ 135,000	220,431	\$ 5,400,000	\$ 4,177,636
2020	2	230,000	181,335	465,000	353,443	250,000	145,500	3,260,000	32,600	1,720,000	1,422,775	495,000	363,119	-	871,627	490,000	376,881	140,000	214,906	7,050,000	3,862,186
2021	3	235,000	175,723	475,000	343,957	250,000	142,000	-	-	1,810,000	1,334,625	515,000	342,919	-	871,627	500,000	367,081	145,000	207,781	3,930,000	3,785,613
2022	4	245,000	169,401	485,000	332,937	255,000	138,000	-	-	1,905,000	1,241,650	535,000	321,919	650,000	865,547	510,000	352,081	155,000	200,281	4,740,000	3,621,816
2023	5	250,000	162,566	500,000	326,618	260,000	133,410	-	-	2,000,000	1,144,025	555,000	300,119	665,000	852,257	530,000	336,781	160,000	192,406	4,920,000	3,442,282
2024	6	260,000	155,241	510,000	306,818	265,000	128,210	-	-	2,105,000	1,041,400	580,000	277,419	680,000	837,209	545,000	320,881	170,000	184,156	5,115,000	3,251,424
2025	7	265,000	147,233	530,000	291,722	270,000	122,380	-	-	2,190,000	955,925	605,000	253,719	695,000	820,555	555,000	308,619	180,000	175,406	5,290,000	3,075,558
2026	8	275,000	138,700	545,000	274,709	280,000	116,305	-	-	2,260,000	886,350	630,000	229,019	715,000	802,139	575,000	291,969	190,000	166,156	5,470,000	2,905,346
2027	9	285,000	129,570	560,000	256,670	285,000	109,865	-	-	2,340,000	802,825	650,000	205,856	735,000	782,078	595,000	268,969	200,000	156,406	5,650,000	2,712,239
2028	10	295,000	119,965	580,000	237,574	295,000	100,888	-	-	2,435,000	707,325	675,000	183,903	760,000	760,272	620,000	245,169	205,000	146,281	5,865,000	2,501,377
2029	11	305,000	109,581	600,000	217,216	300,000	91,295	-	-	2,535,000	607,925	695,000	160,250	780,000	736,851	640,000	226,569	220,000	135,656	6,075,000	2,285,743
2030	12	315,000	97,930	625,000	195,556	310,000	82,145	-	-	2,635,000	511,113	720,000	135,588	805,000	711,872	655,000	207,369	230,000	124,406	6,295,000	2,065,978
2031	13	325,000	85,897	650,000	171,556	320,000	72,380	-	-	2,735,000	410,300	750,000	108,925	835,000	685,124	680,000	186,900	240,000	115,056	6,535,000	1,836,138
2032	14	340,000	73,482	675,000	146,596	330,000	62,300	-	-	2,845,000	298,700	775,000	80,731	860,000	651,189	700,000	164,800	245,000	107,781	6,770,000	1,589,179
2033	15	350,000	60,494	700,000	120,676	345,000	50,750	-	-	2,960,000	182,600	805,000	49,700	895,000	622,309	720,000	142,050	255,000	100,281	7,030,000	1,328,860
2034	16	365,000	46,284	725,000	92,186	355,000	38,675	-	-	3,085,000	61,700	840,000	16,800	930,000	588,117	745,000	117,750	260,000	92,556	7,305,000	1,054,068
2035	17	380,000	31,465	755,000	62,678	370,000	26,250	-	-	-	-	-	-	965,000	552,614	785,000	80,500	270,000	84,438	7,525,000	837,945
2036	18	395,000	16,037	785,000	31,950	380,000	13,300	-	-	-	-	-	-	1,000,000	515,800	825,000	41,250	280,000	75,844	3,665,000	694,181
2037	19	-	-	-	-	-	-	-	-	-	-	-	-	1,040,000	476,437	-	-	285,000	67,016	1,325,000	543,452
2038	20	-	-	-	-	-	-	-	-	-	-	-	-	1,085,000	434,287	-	-	295,000	57,769	1,380,000	492,056
2039	21	-	-	-	-	-	-	-	-	-	-	-	-	1,125,000	390,452	-	-	305,000	48,019	1,430,000	438,471
2040	22	-	-	-	-	-	-	-	-	-	-	-	-	1,175,000	344,831	-	-	315,000	37,944	1,490,000	382,775
2041	23	-	-	-	-	-	-	-	-	-	-	-	-	1,220,000	297,527	-	-	325,000	27,544	1,545,000	324,870
2042	24	-	-	-	-	-	-	-	-	-	-	-	-	1,270,000	247,938	-	-	335,000	16,819	1,605,000	264,756
2043	25	-	-	-	-	-	-	-	-	-	-	-	-	1,320,000	196,565	-	-	350,000	5,688	1,670,000	202,252
2044	26	-	-	-	-	-	-	-	-	-	-	-	-	1,375,000	143,110	-	-	-	-	1,375,000	143,110
2045	27	-	-	-	-	-	-	-	-	-	-	-	-	1,430,000	87,472	-	-	-	-	1,430,000	87,472
2046	28	-	-	-	-	-	-	-	-	-	-	-	-	1,490,000	29,554	-	-	-	-	1,490,000	29,554
		\$ 5,115,000	2,082,235	\$ 10,165,000	\$ 4,110,205	\$ 5,120,000	*****	\$ 6,495,000	\$ 176,425	\$ 37,200,000	*****	\$ 10,205,000	\$ 3,407,503	\$ 24,500,000	\$ 16,050,977	\$ 10,670,000	\$ 4,412,500	\$ 5,890,000	\$ 2,961,028	\$ 115,370,000	\$ 48,036,339

Recap by Maturity			
Yr	Principal	Interest	Total
2019	5,400,000	4,177,636	9,577,636
2020	7,050,000	3,962,186	11,012,186
2021	3,930,000	3,785,613	7,715,613
2022	4,740,000	3,621,816	8,361,816
2023	4,920,000	3,442,282	8,362,282
2024-2028	27,390,000	14,445,944	41,835,944
2029-2033	32,705,000	9,105,898	41,810,898
2034-2038	17,200,000	3,621,703	20,821,703
2039-2043	7,740,000	1,613,125	9,353,125
2044-2046	4,295,000	260,136	4,555,136
*****		\$ 48,036,339	\$ 163,406,339

Applicant's Ten Largest Employers

H E B: 4,200

McAllen Independent School District: 3,416

South Texas College: 2,321

Doctors Hospital at Renaissance: 2,000

City of McAllen: 1,800

McAllen Medical Center: 1,400

Teleperformance: 1,200

International Bank of Commerce: 1,200

Rio Grande Regional Hospital: 1,069

Wal Mart: 1,000

Ten Largest Employers Comments:

Bond Ratings

Bond Ratings

Type	Standard & Poors	Date Received	Fitch	Date Received	Moody's	Date Received
G.O.	AA	01-05-2018	AA	02-15-2017		
Revenue	AA		AA	01-04-2018		

Bond Rating N/A: N

Receive Water or Sewer

Is the project intended to allow the applicant to provide or receive water or sewer services to or from another entity?: N

Project Description

Description of Project Need (for example, is the project needed to address a current compliance issue, avoid potential compliance issues, extend service, expand capacity, etc.): The additional water rights will serve to help McAllen Public Utility keep up with a growing population

Provide a detailed description of the proposed project. The description should include a discussion of the current service area, existing system facilities; and an adequate description of all proposed project elements (include a bulleted list of new project elements/components): The SWIFT Funding will be used to complete a water rights acquisition of 3,000 ac-ft from Hidalgo County Irrigation District # 1 to McAllen Public Utility. A copy of Water Rights Purchase Contract

Agreement is attached. This additional water rights is needed to allow McAllen Public Utility to continue to keep up with demand associated with population growth.

SWIFT

SWIFT Funding Type

Low Interest Loan: \$6900000.00

Is this request for multi-year funding or phased commitments?: N

As an applicant for financial assistance from SWIFT, I acknowledge that this project must comply with any applicable legal obligations in federal law related to contracting with disadvantaged business enterprises.: Y

As an applicant for financial assistance from SWIFT, I acknowledge that this project must comply with applicable legal obligations in state law (Texas Government Code Chapter 2161 and Texas Administrative Code Chapter 20, Subchapter B) related to contracting with historically underutilized businesses.: Y

(DRAFT - SWIFT - 5-2-18)

ORDINANCE NO. 20__ - __

ORDINANCE AUTHORIZING THE ISSUANCE OF CITY OF McALLEN, TEXAS WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2018, IN THE PRINCIPAL AMOUNT OF \$_____ TO BE SOLD TO THE TEXAS WATER DEVELOPMENT BOARD AND ORDAINING OTHER MATTERS RELATED THERETO

THE STATE OF TEXAS :
COUNTY OF HIDALGO :
CITY OF McALLEN :

WHEREAS, the outstanding bonds of the City of McAllen (the "Issuer" or "City"), which are secured by the Net Revenues of the Issuer's Waterworks and Sewer System are as follows:

City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2009, dated December 1, 2009, now outstanding in the principal amount of \$_____ (the "Series 2009 Bonds")

City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2012, dated July 1, 2012, now outstanding in the principal amount of \$_____ (the "Series 2012 Bonds")

City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2013, dated August 15, 2013, now outstanding in the principal amount of \$_____ (the "Series 2013 Bonds");

City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2013-A, dated August 15, 2013, now outstanding in the principal amount of \$_____ (the "Series 2013-A Bonds");

City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2013-B, dated August 15, 2013, now outstanding in the principal amount of \$_____ (the "Series 2013-B Bonds"); and

City of McAllen, Texas Waterworks and Sewer System Revenue Refunding Bonds, Series 2015, dated January 15, 2015, now outstanding in the principal amount of \$_____ (the "Series 2015 Refunding Bonds")

City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2015, dated April 1, 2015, now outstanding in the principal amount of \$_____ (the "Series 2015 Bonds"); and

City of McAllen, Texas Waterworks and Sewer System Revenue Refunding Bonds, Series 2016, dated June 15, 2016, now outstanding in the principal amount of \$_____ (the "Series 2016 Refunding Bonds"); and

City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2016, dated December 1, 2016, now outstanding in the principal amount of \$_____ (the "Series 2016 Bonds"); and

WHEREAS, the bonds hereinafter authorized (the "Bonds") are to be issued and delivered pursuant to Chapter 1502, Government Code; and

WHEREAS, the meeting was open to the public and public notice of the time, place and purpose of said meeting was given pursuant to Chapter 551, Texas Government Code.

BE IT ORDAINED BY THE CITY COMMISSION OF THE CITY OF McALLEN, TEXAS, THAT:

Section 1. **AMOUNT AND PURPOSE OF THE BONDS.** The bond or bonds of the City of McAllen (the "Issuer" or "City") are hereby authorized to be issued and delivered in the aggregate principal amount of \$_____ for the purpose of improving and extending the Issuer's Waterworks and Sewer System, to-wit: improvements and extensions to the waterworks system.

Section 2. **DESIGNATION OF THE BONDS.** Each bond issued pursuant to this Ordinance shall be designated: "CITY OF McALLEN, TEXAS WATERWORKS AND SEWER SYSTEM REVENUE BOND, SERIES 2018", and initially there shall be issued, sold, and delivered hereunder a single fully registered bond, without interest coupons, payable in annual installments of principal (the "Initial Bond"), but the Initial Bond may be assigned and transferred and/or converted into and exchanged for a like aggregate principal amount of fully registered bonds, without interest coupons, having serial and annual maturities, and in the denomination or denominations of \$5,000 or any integral multiple of \$5,000, all in the manner hereinafter provided. The term "Bonds" as used in this Ordinance shall mean and include collectively the Initial Bond and all substitute bonds exchanged therefor, as well as all other substitute bonds and replacement bonds issued pursuant hereto, and the term "Bond" shall mean any of the Bonds.

Section 3. **INITIAL DATE, DENOMINATION, NUMBER, MATURITIES, INITIAL REGISTERED OWNER, AND CHARACTERISTICS OF THE INITIAL BOND.** (a) The Initial Bond is hereby authorized to be issued, sold, and delivered hereunder as a single fully registered Bond, without interest coupons, dated _____, 2018, in the denomination and aggregate principal amount of \$_____, numbered R-1, payable in annual installments of principal to the initial registered owner thereof, to-wit: TEXAS WATER DEVELOPMENT BOARD, or to the registered assignee or assignees of said Bond or any portion or portions thereof (in each case, the "registered owner"), with the annual installments of principal of the Initial Bond to be payable on the dates, respectively, and in the principal amounts, respectively, stated in the FORM OF INITIAL BOND set forth in this Ordinance.

(b) The Initial Bond (i) may be prepaid or redeemed prior to the respective scheduled due dates of installments of principal thereof (only with written approval of the Executive Administrator), (ii) may be assigned and transferred, (iii) may be converted and exchanged for other Bonds, (iv) shall have the characteristics, and (v) shall be signed and sealed, and the principal of and interest on the Initial Bond shall be payable, all as provided, and in the manner required or indicated, in the FORM OF INITIAL BOND set forth in this Ordinance.

Section 4. **INTEREST.** The unpaid principal balance of the Initial Bond shall bear interest from the date of delivery of the Initial Bond and will be calculated on the basis of a 360-day year of twelve 30-day months to the respective scheduled due dates, or to the respective dates of prepayment or redemption, of the

installments of principal of the Initial Bond, and said interest shall be payable, all in the manner provided and at the rates and on the dates stated in the FORM OF INITIAL BOND set forth in this Ordinance.

Section 5. FORM OF INITIAL BOND. The form of the Initial Bond, including the form of Registration Certificate of the Comptroller of Public Accounts of the State of Texas to be endorsed on the Initial Bond, shall be substantially as follows:

FORM OF INITIAL BOND

NO. R-1

\$ _____

**UNITED STATES OF AMERICA
STATE OF TEXAS
COUNTY OF HIDALGO
CITY OF McALLEN, TEXAS
WATERWORKS AND SEWER SYSTEM REVENUE BOND, SERIES 2018**

The CITY OF McALLEN, in HIDALGO COUNTY, Texas (the "Issuer"), being a political subdivision of the State of Texas, hereby promises to pay to

TEXAS WATER DEVELOPMENT BOARD

or to the registered assignee or assignees of this Bond or any portion or portions hereof (in each case, the "registered owner") the aggregate principal amount of

in annual installments of principal due and payable on February 1 in each of the years, and in the respective principal amounts, as set forth in the following schedule:

YEARS

AMOUNTS

YEARS

AMOUNTS

and to pay interest, from the date of delivery of this Initial Bond (_____, 2018), on the balance of each such installment of principal, respectively, from time to time remaining unpaid, at the following rates per annum:

<u>YEARS</u>	<u>INTEREST RATES</u>	<u>YEARS</u>	<u>INTEREST RATES</u>
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Said interest being payable on _____, 2018 and semiannually on each August 1 and February 1 thereafter while this Bond or any portion hereof is outstanding and unpaid.

THE INSTALLMENTS OF PRINCIPAL OF AND THE INTEREST ON this Bond are payable in lawful money of the United States of America, without exchange or collection charges. The installments of principal and the interest on this Bond are payable to the registered owner hereof through the services of _____, _____, _____, the "Paying Agent/Registrar" for this Bond. Payment of all principal of and interest on this Bond shall be made by the Paying Agent/Registrar to the registered owner hereof on each principal and/or interest payment date by check or draft, dated as of such date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the Issuer required by the ordinance authorizing the issuance of this Bond (the "Bond Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such principal and/or interest payment date, to the registered owner hereof, at the address of the registered owner, as it appeared on the 15th day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar as hereinafter described. In addition, interest may be paid by electronic or wire transfer, or by such other method acceptable to Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner, however, if the Bond is owned by the Texas Water Development Board, payment of principal and interest on the Bond shall be made by federal fund wire transfer, at no cost to the Texas Water Development Board. The Issuer covenants with the registered owner of this Bond that on or before each principal and/or interest payment date for this Bond it will make available to the Paying Agent/Registrar, from the "Interest and Sinking Fund" created by the Bond Ordinance, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on this Bond, when due.

IF THE DATE for the payment of the principal of or interest on this Bond shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

THIS BOND has been authorized in accordance with the Constitution and laws of the State of Texas in the principal amount of \$_____ for the purpose of improving and extending the City's Waterworks and Sewer System, to-wit: improvements and extensions to the waterworks system.

ON FEBRUARY 1, 20___, or any date thereafter, the unpaid installments of principal of this Bond may be prepaid or redeemed prior to their scheduled due dates, at the option of the Issuer, with funds derived from any available source, as a whole, or in part, and, if in part, the Issuer shall select, in inverse order of maturity and designate the maturity, or maturities, and the amount that is to be redeemed, and if less than a

whole maturity is to be called, the Issuer shall direct the Paying Agent/Registrar to call by lot (provided that a portion of this Bond may be redeemed only in an integral multiple of \$5,000), at the redemption price of the principal amount, plus accrued interest to the date fixed for prepayment or redemption.

AT LEAST 30 days prior to the date fixed for any such prepayment or redemption a written notice of such prepayment or redemption shall be mailed by the Paying Agent/Registrar to the registered owner hereof. By the date fixed for any such prepayment or redemption due provision shall be made by the Issuer with the Paying Agent/Registrar for the payment of the required prepayment or redemption price for this Bond or the portion hereof which is to be so prepaid or redeemed, plus accrued interest thereon to the date fixed for prepayment or redemption. If such written notice of prepayment or redemption is given, and if due provision for such payment is made, all as provided above, this Bond, or the portion thereof which is to be so prepaid or redeemed, thereby automatically shall be treated as prepaid or redeemed prior to its scheduled due date, and shall not bear interest after the date fixed for its prepayment or redemption, and shall not be regarded as being outstanding except for the right of the registered owner to receive the prepayment or redemption price plus accrued interest to the date fixed for prepayment or redemption from the Paying Agent/Registrar out of the funds provided for such payment. The Paying Agent/Registrar shall record in the Registration Books all such prepayments or redemptions of principal of this Bond or any portion hereof.

THIS BOND, to the extent of the unpaid or unredeemed principal balance hereof, or any unpaid and unredeemed portion hereof in any integral multiple of \$5,000, may be assigned by the initial registered owner hereof and shall be transferred only in the Registration Books of the Issuer kept by the Paying Agent/Registrar acting in the capacity of registrar for the Bonds, upon the terms and conditions set forth in the Bond Ordinance. Among other requirements for such transfer, this Bond must be presented and surrendered to the Paying Agent/Registrar for cancellation, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Paying Agent/Registrar, evidencing assignment by the initial registered owner of this Bond, or any portion or portions hereof in any integral multiple of \$5,000, to the assignee or assignees in whose name or names this Bond or any such portion or portions hereof is or are to be transferred and registered. Any instrument or instruments of assignment satisfactory to the Paying Agent/Registrar may be used to evidence the assignment of this Bond or any such portion or portions hereof by the initial registered owner hereof. A new bond or bonds payable to such assignee or assignees (which then will be the new registered owner or owners of such new Bond or Bonds) or to the initial registered owner as to any portion of this Bond which is not being assigned and transferred by the initial registered owner, shall be delivered by the Paying Agent/Registrar in conversion of and exchange for this Bond or any portion or portions hereof, but solely in the form and manner as provided in the next paragraph hereof for the conversion and exchange of this Bond or any portion hereof. The registered owner of this Bond shall be deemed and treated by the Issuer and the Paying Agent/Registrar as the absolute owner hereof for all purposes, including payment and discharge of liability upon this Bond to the extent of such payment, and the Issuer and the Paying Agent/Registrar shall not be affected by any notice to the contrary.

AS PROVIDED above and in the Bond Ordinance, this Bond, to the extent of the unpaid or unredeemed principal balance hereof, may be converted into and exchanged for a like aggregate principal amount of fully registered bonds, without interest coupons, payable to the assignee or assignees duly designated in writing by the initial registered owner hereof, or to the initial registered owner as to any portion of this Bond which is not being assigned and transferred by the initial registered owner, in any denomination or denominations in any integral multiple of \$5,000 (subject to the requirement hereinafter stated that each substitute bond issued in exchange for any portion of this Bond shall have a single stated principal maturity date), upon surrender of this Bond to the Paying Agent/Registrar for cancellation, all in accordance with the form and procedures set forth in the Bond Ordinance. If this Bond or any portion hereof is assigned and

transferred or converted each bond issued in exchange for any portion hereof shall have a single stated principal maturity date corresponding to the due date of the installment of principal of this Bond or portion hereof for which the substitute bond is being exchanged, and shall bear interest at the rate applicable to and borne by such installment of principal or portion thereof. Such bonds, respectively, shall be subject to redemption prior to maturity on the same dates and for the same prices as the corresponding installment of principal of this Bond or portion hereof for which they are being exchanged. No such bond shall be payable in installments, but shall have only one stated principal maturity date. AS PROVIDED IN THE BOND ORDINANCE, THIS BOND IN ITS PRESENT FORM MAY BE ASSIGNED AND TRANSFERRED OR CONVERTED ONCE ONLY, and to one or more assignees, but the bonds issued and delivered in exchange for this Bond or any portion hereof may be assigned and transferred, and converted, subsequently, as provided in the Bond Ordinance. The Issuer shall pay the Paying Agent/Registrar's standard or customary fees and charges for transferring, converting, and exchanging this Bond or any portion thereof, but the one requesting such transfer, conversion, and exchange shall pay any taxes or governmental charges required to be paid with respect thereto. The Paying Agent/Registrar shall not be required to make any such assignment, conversion, or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or, (ii) with respect to any Bond or portion thereof called for prepayment or redemption prior to maturity, within 45 days prior to its prepayment or redemption date.

IN THE EVENT any Paying Agent/Registrar for this Bond is changed by the Issuer, resigns, or otherwise ceases to act as such, the Issuer has covenanted in the Bond Ordinance that it promptly will appoint a competent and legally qualified substitute therefor, and promptly will cause written notice thereof to be mailed to the registered owner of this Bond.

IT IS HEREBY certified, recited, and covenanted that this Bond has been duly and validly authorized, issued, sold, and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the authorization, issuance, and delivery of this Bond have been performed, existed, and been done in accordance with law, that this Bond is a special obligation; and that the interest on and principal of this Bond, together with other outstanding revenue bonds, if any, are payable from and secured by an irrevocable first lien on and pledge of the Pledge Revenues, as defined by the Bond Ordinance and which revenues include the Net Revenues of said Issuer's Waterworks and Sewer System.

THE ISSUER has reserved the right, subject to the restrictions stated and adopted by reference in the Ordinance authorizing this Series of Bonds, to issue additional parity revenue bonds which also may be made payable from, and secured by a lien on and pledge of the aforesaid Net Revenues.

THE OWNER HEREOF shall never have the right to demand payment of this obligation out of any funds raised or to be raised by taxation, or from any source whatsoever other than the aforesaid Net Revenues.

BY BECOMING the registered owner of this Bond, the registered owner thereby acknowledges all of the terms and provisions of the Bond Ordinance, agrees to be bound by such terms and provisions, acknowledges that the Bond Ordinance is duly recorded and available for inspection in the official minutes and records of the governing body of the Issuer, and agrees that the terms and provisions of this Bond and the Bond Ordinance constitute a contract between the registered owner hereof and the Issuer.

IN WITNESS WHEREOF, the Issuer has caused this Bond to be signed with the manual or facsimile signature of the Mayor of the Issuer and countersigned with the manual or facsimile signature of the City Secretary of the Issuer, has caused the official seal of the Issuer to be duly impressed on this Bond, and has caused this Bond to be dated _____, 2018.

City Secretary

Mayor

(CITY SEAL)

The following shall be printed on said Bond:

"This Bond was delivered to and paid for by the
Purchaser thereof on _____, 2018".

**FORM OF REGISTRATION CERTIFICATE OF THE
COMPTROLLER OF PUBLIC ACCOUNTS:**

COMPTROLLER'S REGISTRATION CERTIFICATE: REGISTER NO.

I hereby certify that this Bond has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Bond has been registered by the Comptroller of Public Accounts of the State of Texas.

Witness my signature and seal this

Comptroller of Public Accounts of the State of Texas

(COMPTROLLER'S SEAL)

Section 6. ADDITIONAL CHARACTERISTICS OF THE BONDS. (a) Registration and Transfer. The Issuer shall keep or cause to be kept at the principal corporate trust office of _____, _____, _____, (the "Paying Agent/Registrar") books or records of the registration and transfer of the Bonds (the "Registration Books"), and the Issuer hereby appoints the Paying Agent/Registrar as its registrar and transfer agent to keep such books or records and make such transfers and registrations under such reasonable regulations as the Issuer and Paying Agent/Registrar may prescribe; and the Paying Agent/Registrar shall make such transfers and registrations as herein provided. The Paying Agent/Registrar shall obtain and record in the Registration Books the address of the registered owner of each Bond to which payments with respect to the Bonds shall be mailed, as herein provided; but it shall be the duty of each registered owner to notify the Paying Agent/Registrar in writing of the address to which payments shall be mailed, and such interest payments shall not be mailed unless such notice has been given. The Issuer shall have the right to inspect the Registration Books during regular business hours of the Paying Agent/Registrar, but otherwise the Paying Agent/Registrar shall keep the Registration Books confidential and, unless otherwise required by law, shall not permit their inspection by any other entity. Registration of each Bond may be

transferred in the Registration Books only upon presentation and surrender of such Bond to the Paying Agent/Registrar for transfer of registration and cancellation, together with proper written instruments of assignment, in form and with guarantee of signatures satisfactory to the Paying Agent/Registrar, (i) evidencing the assignment of the Bond, or any portion thereof in any integral multiple of \$5,000, to the assignee or assignees thereof, and (ii) the right of such assignee or assignees to have the Bond or any such portion thereof registered in the name of such assignee or assignees. Upon the assignment and transfer of any Bond or any portion thereof, a new substitute Bond or Bonds shall be issued in conversion and exchange therefor in the manner herein provided. The Initial Bond, to the extent of the unpaid or unredeemed principal balance thereof, may be assigned and transferred by the initial registered owner thereof once only, and to one or more assignees designated in writing by the initial registered owner thereof. All Bonds issued and delivered in conversion of and exchange for the Initial Bond shall be in any denomination or denominations of any integral multiple of \$5,000 (subject to the requirement hereinafter stated that each substitute Bond shall have a single stated principal maturity date), shall be in the form prescribed in the FORM OF SUBSTITUTE BOND set forth in this Ordinance, and shall have the characteristics, and may be assigned, transferred, and converted as hereinafter provided. If the Initial Bond or any portion thereof is assigned and transferred or converted the Initial Bond must be surrendered to the Paying Agent/Registrar for cancellation, and each Bond issued in exchange for any portion of the Initial Bond shall have a single stated principal maturity date, and shall not be payable in installments; and each such Bond shall have a principal maturity date corresponding to the due date of the installment of principal or portion thereof for which the substitute Bond is being exchanged; and each such Bond shall bear interest at the single rate applicable to and borne by such installment of principal or portion thereof for which it is being exchanged. If only a portion of the Initial Bond is assigned and transferred, there shall be delivered to and registered in the name of the initial registered owner substitute Bonds in exchange for the unassigned balance of the Initial Bond in the same manner as if the initial registered owner were the assignee thereof. If any Bond or portion thereof other than the Initial Bond is assigned and transferred or converted each Bond issued in exchange shall have the same principal maturity date and bear interest at the same rate as the Bond for which it is exchanged. A form of assignment shall be printed or endorsed on each Bond, excepting the Initial Bond, which shall be executed by the registered owner or its duly authorized attorney or representative to evidence an assignment thereof. Upon surrender of any Bonds or any portion or portions thereof for transfer of registration, an authorized representative of the Paying Agent/Registrar shall make such transfer in the Registration Books, and shall deliver a new fully registered substitute Bond or Bonds, having the characteristics herein described, payable to such assignee or assignees (which then will be the registered owner or owners of such new Bond or Bonds), or to the previous registered owner in case only a portion of a Bond is being assigned and transferred, all in conversion of and exchange for said assigned Bond or Bonds or any portion or portions thereof, in the same form and manner, and with the same effect, as provided in Section 6(d), below, for the conversion and exchange of Bonds by any registered owner of a Bond. The Issuer shall pay the Paying Agent/Registrar's standard or customary fees and charges for making such transfer and delivery of a substitute Bond or Bonds, but the one requesting such transfer shall pay any taxes or other governmental charges required to be paid with respect thereto. The Paying Agent/Registrar shall not be required to make transfers of registration of any Bond or any portion thereof (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or, (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

(b) Ownership of Bonds. The entity in whose name any Bond shall be registered in the Registration Books at any time shall be deemed and treated as the absolute owner thereof for all purposes of this Ordinance, whether or not such Bond shall be overdue, and the Issuer and the Paying Agent/Registrar shall not be affected by any notice to the contrary; and payment of, or on account of, the principal of, premium,

if any, and interest on any such Bond shall be made only to such registered owner. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

(c) Payment of Bonds and Interest. The Issuer hereby further appoints the Paying Agent/Registrar to act as the paying agent for paying the principal of and interest on the Bonds, and to act as its agent to convert and exchange or replace Bonds, all as provided in this Ordinance. The Paying Agent/Registrar shall keep proper records of all payments made by the Issuer and the Paying Agent/Registrar with respect to the Bonds, and of all conversions and exchanges of Bonds, and all replacements of Bonds, as provided in this Ordinance. However, in the event of a nonpayment of interest on a scheduled payment date, and for thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be two days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Bondholder appearing on the Security Register at the close of business on the last business day next preceding the date of mailing of such notice.

(d) Conversion and Exchange or Replacement; Authentication. Each Bond issued and delivered pursuant to this Ordinance, to the extent of the unpaid or unredeemed principal balance or principal amount thereof, may, upon surrender of such Bond at the principal corporate trust office of the Paying Agent/Registrar, together with a written request therefor duly executed by the registered owner or the assignee or assignees thereof, or its or their duly authorized attorneys or representatives, with guarantee of signatures satisfactory to the Paying Agent/Registrar, may, at the option of the registered owner or such assignee or assignees, as appropriate, be converted into and exchanged for fully registered bonds, without interest coupons, in the form prescribed in the FORM OF SUBSTITUTE BOND set forth in this Ordinance, in the denomination of \$5,000, or any integral multiple of \$5,000 (subject to the requirement hereinafter stated that each substitute Bond shall have a single stated maturity date), as requested in writing by such registered owner or such assignee or assignees, in an aggregate principal amount equal to the unpaid or unredeemed principal balance or principal amount of any Bond or Bonds so surrendered, and payable to the appropriate registered owner, assignee, or assignees, as the case may be. If the Initial Bond is assigned and transferred or converted each substitute Bond issued in exchange for any portion of the Initial Bond shall have a single stated principal maturity date, and shall not be payable in installments; and each such Bond shall have a principal maturity date corresponding to the due date of the installment of principal or portion thereof for which the substitute Bond is being exchanged; and each such Bond shall bear interest at the single rate applicable to and borne by such installment of principal or portion thereof for which it is being exchanged. If a portion of any Bond (other than the Initial Bond) shall be redeemed prior to its scheduled maturity as provided herein, a substitute Bond or Bonds having the same maturity date, bearing interest at the same rate, in the denomination or denominations of any integral multiple of \$5,000 at the request of the registered owner, and in aggregate principal amount equal to the unredeemed portion thereof, will be issued to the registered owner upon surrender thereof for cancellation. If any Bond or portion thereof (other than the Initial Bond) is assigned and transferred or converted, each Bond issued in exchange therefor shall have the same principal maturity date and bear interest at the same rate as the Bond for which it is being exchanged. Each substitute Bond shall bear a letter and/or number to distinguish it from each other Bond. The Paying Agent/Registrar shall convert and exchange or replace Bonds as provided herein, and each fully registered bond delivered in conversion of and exchange for or replacement of any Bond or portion thereof as permitted or required by any provision of this Ordinance shall constitute one of the Bonds for all purposes of this Ordinance, and may again be converted and exchanged or replaced. It is specifically provided that any Bond

authenticated in conversion of and exchange for or replacement of another Bond on or prior to the first scheduled Record Date for the Initial Bond shall bear interest from the date of the Initial Bond, but each substitute Bond so authenticated after such first scheduled Record Date shall bear interest from the interest payment date next preceding the date on which such substitute Bond was so authenticated, unless such Bond is authenticated after any Record Date but on or before the next following interest payment date, in which case it shall bear interest from such next following interest payment date; provided, however, that if at the time of delivery of any substitute Bond the interest on the Bond for which it is being exchanged is due but has not been paid, then such Bond shall bear interest from the date to which such interest has been paid in full. THE INITIAL BOND issued and delivered pursuant to this Ordinance is not required to be, and shall not be, authenticated by the Paying Agent/ Registrar, but on each substitute Bond issued in conversion of and exchange for or replacement of any Bond or Bonds issued under this Ordinance there shall be printed a certificate, in the form substantially as follows:

"PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

It is hereby certified that this Bond has been issued under the provisions of the Bond Ordinance described on the face of this Bond; and that this Bond has been issued in conversion of and exchange for or replacement of a bond, bonds, or a portion of a bond or bonds of an issue which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

_____, _____
Paying Agent/Registrar

Dated _____

By _____
Authorized Representative"

An authorized representative of the Paying Agent/Registrar shall, before the delivery of any such Bond, date and manually sign the above Certificate, and no such Bond shall be deemed to be issued or outstanding unless such Certificate is so executed. The Paying Agent/Registrar promptly shall cancel all Bonds surrendered for conversion and exchange or replacement. No additional ordinances, orders, or resolutions need be passed or adopted by the governing body of the Issuer or any other body or person so as to accomplish the foregoing conversion and exchange or replacement of any Bond or portion thereof, and the Paying Agent/Registrar shall provide for the printing, execution, and delivery of the substitute Bonds in the manner prescribed herein, and said Bonds shall be of type composition printed on paper with lithographed or steel engraved borders of customary weight and strength. Pursuant to Chapter 1201, Texas Government Code, the duty of conversion and exchange or replacement of Bonds as aforesaid is hereby imposed upon the Paying Agent/Registrar, and, upon the execution of the above Paying Agent/Registrar's Authentication Certificate, the converted and exchanged or replaced Bond shall be valid, incontestable, and enforceable in the same manner and with the same effect as the Initial Bond which originally was issued pursuant to this Ordinance, approved by the Attorney General, and registered by the Comptroller of Public Accounts. The Issuer shall pay the Paying Agent/Registrar's standard or customary fees and charges for transferring, converting, and exchanging any Bond or any portion thereof, but the one requesting any such transfer, conversion, and exchange shall pay any taxes or governmental charges required to be paid with respect thereto as a condition precedent to the exercise of such privilege of conversion and exchange. The Paying Agent/Registrar shall not be required to make any such conversion and exchange or replacement of Bonds or any portion thereof (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or, (ii) with respect to any Bond or portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

(e) In General. All Bonds issued in conversion and exchange or replacement of any other Bond or portion thereof, (i) shall be issued in fully registered form, without interest coupons, with the principal of and interest on such Bonds to be payable only to the registered owners thereof, (ii) may be redeemed prior to their scheduled maturities, (iii) may be transferred and assigned, (iv) may be converted and exchanged for other Bonds, (v) shall have the characteristics, (vi) shall be signed and sealed, and (vii) the principal of and interest on the Bonds shall be payable, all as provided, and in the manner required or indicated, in the FORM OF SUBSTITUTE BOND set forth in this Ordinance.

(f) Payment of Fees and Charges. The Issuer hereby covenants with the registered owners of the Bonds that it will (i) pay the standard or customary fees and charges of the Paying Agent/Registrar for its services with respect to the payment of the principal of and interest on the Bonds, when due, and (ii) pay the fees and charges of the Paying Agent/Registrar for services with respect to the transfer of registration of Bonds, and with respect to the conversion and exchange of Bonds solely to the extent above provided in this Ordinance.

(g) Substitute Paying Agent/Registrar. The Issuer covenants with the registered owners of the Bonds that at all times while the Bonds are outstanding the Issuer will provide a competent and legally qualified bank, trust company, financial institution, or other agency to act as and perform the services of Paying Agent/Registrar for the Bonds under this Ordinance, and that the Paying Agent/Registrar will be one entity. The Issuer reserves the right to, and may, at its option, change the Paying Agent/Registrar upon not less than 120 days written notice to the Paying Agent/ Registrar, to be effective not later than 60 days prior to the next principal or interest payment date after such notice. However, the Issuer must obtain approval of the Texas Water Development Board to such change if the Texas Water Development Board owns any of the bonds. In the event that the entity at any time acting as Paying Agent/Registrar (or its successor by merger, acquisition, or other method) should resign or otherwise cease to act as such, the Issuer covenants that promptly it will appoint a competent and legally qualified bank, trust company, financial institution, or other agency to act as Paying Agent/Registrar under this Ordinance. Upon any change in the Paying Agent/Registrar, the previous Paying Agent/Registrar promptly shall transfer and deliver the Registration Books (or a copy thereof), along with all other pertinent books and records relating to the Bonds, to the new Paying Agent/Registrar designated and appointed by the Issuer. Upon any change in the Paying Agent/Registrar, the Issuer promptly will cause a written notice thereof to be sent by the new Paying Agent/Registrar to each registered owner of the Bonds, by United States mail, first-class postage prepaid, which notice also shall give the address of the new Paying Agent/Registrar. By accepting the position and performing as such, each Paying Agent/Registrar shall be deemed to have agreed to the provisions of this Ordinance, and a certified copy of this Ordinance shall be delivered to each Paying Agent/Registrar.

(h) Book-Entry Only System. The Bonds issued in exchange for the Bonds initially issued to the purchaser specified herein shall be initially issued in the form of a separate single fully registered Bond for each of the maturities thereof. Upon initial issuance, the ownership of each such Bond shall be registered in the name of Cede & Co., as nominee of Depository Trust Company of New York ("DTC"), and except as provided in subsection (f) hereof, all of the outstanding Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, the Issuer and the Paying Agent/Registrar shall have no responsibility or obligation to any DTC Participant or to any person on behalf of whom such a DTC Participant holds an interest on the Bonds. Without limiting the immediately preceding sentence, the Issuer and the Paying Agent/Registrar shall have no responsibility or obligation with

respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other person, other than a Bondholder, as shown on the Registration Books, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any DTC Participant or any other person, other than a Bondholder, as shown in the Registration Books of any amount with respect to principal of, premium, if any, or interest on, as the case may be, the Bonds. Notwithstanding any other provision of this Ordinance to the contrary, the Issuer and the Paying Agent/Registrar shall be entitled to treat and consider the person in whose name each Bond is registered in the Registration Books as the absolute owner of such Bond for the purpose of payment of principal, premium, if any, and interest, as the case may be, with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Paying Agent/Registrar shall pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective owners, as shown in the Registration Books as provided in this Ordinance, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the Issuer's obligations with respect to payment of principal of, premium, if any, and interest on, or as the case may be, the Bonds to the extent of the sum or sums so paid. No person other than an owner, as shown in the Registration Books, shall receive a Bond certificate evidencing the obligation of the Issuer to make payments of principal, premium, if any, and interest, as the case may be, pursuant to this Ordinance. Upon delivery by DTC to the Paying Agent/Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions in this Ordinance with respect to interest checks being mailed to the registered owner at the close of business on the Record Date, the word "Cede & Co." in this Ordinance shall refer to such new nominee of DTC.

(i) Successor Securities Depository; Transfers Outside Book-Entry Only System. In the event that the Issuer or the Paying Agent/Registrar determines that DTC is incapable of discharging its responsibilities described herein and in the representation letter of the Issuer to DTC and that it is in the best interest of the beneficial owners of the Bonds that they be able to obtain certificated Bonds, the Issuer or the Paying Agent/Registrar shall (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities and Exchange Act of 1934, as amended, notify DTC and DTC Participants of the appointment of such successor securities depository and transfer one or more separate Bonds to such successor securities depository or (ii) notify DTC and DTC Participants of the availability through DTC of Bonds and transfer one or more separate Bonds to DTC Participants having Bonds credited to their DTC accounts. In such event, the Bonds shall no longer be restricted to being registered in the Registration Books in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names Bondholders transferring or exchanging Bonds shall designate, in accordance with the provisions of this Ordinance. In addition, notice of such discharge by DTC shall be given to the Texas Water Development Board and consent obtained, if the Texas Water Development Board owns any of the Bonds.

(j) Payments to Cede & Co. Notwithstanding any other provision of this Ordinance to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of, premium, if any, and interest on, or as the case may be, such Bond and all notices with respect to such Bond shall be made and given, respectively, in the manner provided in the representation letter of the Issuer to DTC.

Section 7. FORM OF SUBSTITUTE BONDS. The form of all Bonds issued in conversion and exchange or replacement of any other Bond or portion thereof, including the form of Paying Agent/Registrar's Certificate to be printed on each of such Bonds, and the Form of Assignment to be printed on each of the Bonds, shall be, respectively, substantially as follows, with such appropriate variations, omissions, or insertions as are permitted or required by this Ordinance.

FORM OF SUBSTITUTE BOND

NO. _____

PRINCIPAL AMOUNT

**UNITED STATES OF AMERICA
STATE OF TEXAS
COUNTY OF HIDALGO
CITY OF McALLEN, TEXAS
WATERWORKS AND SEWER SYSTEM REVENUE BOND, SERIES 2018**

<u>Interest Rate</u>	<u>Date of Original Delivery</u>	<u>Maturity Date</u>	<u>Date of Original Issue</u>	<u>Cusip No.</u>
	_____, 2018		_____, 2018	

ON THE MATURITY DATE specified above THE CITY OF McALLEN, in HIDALGO COUNTY, Texas (the "Issuer"), being a political subdivision of the State of Texas, hereby promises to pay to

or to the registered assignee hereof (either being hereinafter called the "registered owner") the principal amount of

and to pay interest thereon from the date of original delivery (which date appears above) to the maturity date specified above, or the date of redemption prior to maturity, at the interest rate per annum specified above; with interest being payable on _____, 2018 and semiannually thereafter on each August 1 and February 1, except that if the date of authentication of this Bond is later than _____, 2018, such principal amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date (hereinafter defined) but on or before the next following interest payment date, in which case such principal amount shall bear interest from such next following interest payment date.

THE PRINCIPAL OF AND INTEREST ON this Bond are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Bond shall be paid to the registered owner hereof upon presentation and surrender of this Bond at maturity or upon the date fixed for its redemption prior to maturity, at the principal corporate trust office of _____, _____, _____, which is the "Paying Agent/Registrar" for this Bond. The payment of interest on this Bond shall be made by the Paying Agent/Registrar to the registered owner hereof on the interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the Issuer required by the Ordinance authorizing the issuance of the Bonds (the "Bond Ordinance") to be on deposit with the Paying Agent/ Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the registered owner hereof, at the address of the registered owner, as it appeared on the 15th day of the month next preceding such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar as hereinafter described. In addition, interest may be paid by electronic or wire transfer, or by such other method acceptable to the Paying Agent/Registrar

requested by, and at the risk and expense of, the registered owner, however, if the Bond is owned by the Texas Water Development Board, there will be no charge, and payment of principal shall be made by federal funds wire transfer. Any accrued interest due upon the redemption of this Bond prior to maturity as provided herein shall be paid to the registered owner at the principal corporate trust office of the Paying Agent/Registrar upon presentation and surrender of this Bond for redemption and payment at the principal corporate trust office of the Paying Agent/Registrar. The Issuer covenants with the registered owner of this Bond that on or before each principal payment date, interest payment date, and accrued interest payment date for this Bond, it will make available to the Paying Agent/Registrar, from the "Interest and Sinking Fund" created by the Bond Ordinance, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on the Bonds, when due.

IF THE DATE for the payment of the principal of or interest on this Bond shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the City where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

THIS BOND is one of an issue of Bonds initially dated _____, 2018, authorized in accordance with the Constitution and laws of the State of Texas in the principal amount of \$_____ for the purpose of improving and extending the Issuer's Waterworks and Sewer System, to-wit: improvements and extensions to the waterworks system.

ON FEBRUARY 1, 20___, or any date thereafter, the unpaid installments of principal of this Bond may be prepaid or redeemed prior to their scheduled due dates, at the option of the Issuer, with funds derived from any available source, as a whole, or in part, and, if in part, the Issuer shall select, in inverse order of maturity and designate the maturity, or maturities, and the amount that is to be redeemed, and if less than a whole maturity is to be called, the Issuer shall direct the Paying Agent/Registrar to call by lot (provided that a portion of this Bond may be redeemed only in an integral multiple of \$5,000), at the redemption price of the principal amount, plus accrued interest to the date fixed for prepayment or redemption.

AT LEAST 30 days prior to the date fixed for any such prepayment or redemption a written notice of such prepayment or redemption shall be mailed by the Paying Agent/Registrar to the registered owner hereof. By the date fixed for any such prepayment or redemption due provision shall be made by the Issuer with the Paying Agent/Registrar for the payment of the required prepayment or redemption price for this Bond or the portion hereof which is to be so prepaid or redeemed, plus accrued interest thereon to the date fixed for prepayment or redemption. If such written notice of prepayment or redemption is given, and if due provision for such payment is made, all as provided above, this Bond, or the portion thereof which is to be so prepaid or redeemed, thereby automatically shall be treated as prepaid or redeemed prior to its scheduled due date, and shall not bear interest after the date fixed for its prepayment or redemption, and shall not be regarded as being outstanding except for the right of the registered owner to receive the prepayment or redemption price plus accrued interest to the date fixed for prepayment or redemption from the Paying Agent/Registrar out of the funds provided for such payment. The Paying Agent/Registrar shall record in the Registration Books all such prepayments or redemptions of principal of this Bond or any portion hereof.

THIS BOND OR ANY PORTION OR PORTIONS HEREOF IN ANY INTEGRAL MULTIPLE OF \$5,000 may be assigned and shall be transferred only in the Registration Books of the Issuer kept by the Paying Agent/Registrar acting in the capacity of registrar for the Bonds, upon the terms and conditions set

forth in the Bond Ordinance. Among other requirements for such assignment and transfer, this Bond must be presented and surrendered to the Paying Agent/Registrar, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Paying Agent/Registrar, evidencing assignment of this Bond or any portion or portions hereof in any integral multiple of \$5,000 to the assignee or assignees in whose name or names this Bond or any such portion or portions hereof is or are to be transferred and registered. The form of Assignment printed or endorsed on this Bond shall be executed by the registered owner or its duly authorized attorney or representative, to evidence the assignment hereof. A new Bond or Bonds payable to such assignee or assignees (which then will be the new registered owner or owners of such new Bond or Bonds), or to the previous registered owner in the case of the assignment and transfer of only a portion of this Bond, may be delivered by the Paying Agent/Registrar in conversion of and exchange for this Bond, all in the form and manner as provided in the next paragraph hereof for the conversion and exchange of other Bonds. The Issuer shall pay the Paying Agent/Registrar's standard or customary fees and charges for making such transfer, but the one requesting such transfer shall pay any taxes or other governmental charges required to be paid with respect thereto. The Paying Agent/Registrar shall not be required to make transfers of registration of this Bond or any portion hereof (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or, (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date. The registered owner of this Bond shall be deemed and treated by the Issuer and the Paying Agent/Registrar as the absolute owner hereof for all purposes, including payment and discharge of liability upon this Bond to the extent of such payment, and the Issuer and the Paying Agent/Registrar shall not be affected by any notice to the contrary.

ALL BONDS OF THIS SERIES are issuable solely as fully registered bonds, without interest coupons, in the denomination of any integral multiple of \$5,000. As provided in the Bond Ordinance, this Bond, or any unredeemed portion hereof, may, at the request of the registered owner or the assignee or assignees hereof, be converted into and exchanged for a like aggregate principal amount of fully registered bonds, without interest coupons, payable to the appropriate registered owner, assignee, or assignees, as the case may be, having the same maturity date, and bearing interest at the same rate, in any denomination or denominations in any integral multiple of \$5,000 as requested in writing by the appropriate registered owner, assignee, or assignees, as the case may be, upon surrender of this Bond to the Paying Agent/Registrar for cancellation, all in accordance with the form and procedures set forth in the Bond Ordinance. The Issuer shall pay the Paying Agent/Registrar's standard or customary fees and charges for transferring, converting, and exchanging any Bond or any portion thereof, but the one requesting such transfer, conversion, and exchange shall pay any taxes or governmental charges required to be paid with respect thereto as a condition precedent to the exercise of such privilege of conversion and exchange. The Paying Agent/Registrar shall not be required to make any such conversion and exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or, (ii) with respect to any Bond or portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

IN THE EVENT any Paying Agent/Registrar for the Bonds is changed by the Issuer, resigns, or otherwise ceases to act as such, the Issuer has covenanted in the Bond Ordinance that it promptly will appoint a competent and legally qualified substitute therefor, and promptly will cause written notice thereof to be mailed to the registered owners of the Bonds.

IT IS HEREBY certified, recited, and covenanted that this Bond has been duly and validly authorized, issued, sold, and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the authorization, issuance, and delivery of this Bond have been

performed, existed, and been done in accordance with law, that this Bond is a special obligation; and that the interest on and principal of this Bond, together with other outstanding revenue bonds, if any, are payable from and secured by a first lien on and pledge of the Pledge Revenues, as defined by the Bond Ordinance and which revenues include the Net Revenues of said Issuer's Waterworks and Sewer System.

THE ISSUER has reserved the right, subject to the restrictions stated and adopted by reference in the Ordinance authorizing this Series of Bonds, to issue additional parity revenue bonds which also may be made payable from, and secured by a lien on and pledge of the aforesaid Net Revenues.

THE OWNER HEREOF shall never have the right to demand payment of this obligation out of any funds raised or to be raised by taxation, or from any source whatsoever other than the aforesaid Net Revenues.

BY BECOMING the registered owner of this Bond, the registered owner thereby acknowledges all of the terms and provisions of the Bond Ordinance, agrees to be bound by such terms and provisions, acknowledges that the Bond Ordinance is duly recorded and available for inspection in the official minutes and records of the governing body of the Issuer, and agrees that the terms and provisions of this Bond and the Bond Ordinance constitute a contract between each registered owner hereof and the Issuer.

IN WITNESS WHEREOF, the Issuer has caused this Bond to be signed with the manual or facsimile signature of the Mayor of the Issuer and countersigned with the manual or facsimile signature of the City Secretary of the Issuer, and has caused the official seal of the Issuer to be duly impressed, or placed in facsimile, on this Bond.

City Secretary

Mayor

(CITY SEAL)

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FORM OF PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

(To be executed if this Bond is not accompanied by an executed Registration Certificate of the Comptroller of Public Accounts of the State of Texas)

It is hereby certified that this Bond has been issued under the provisions of the Bond Ordinance described in the text of this Bond; and that this Bond has been issued in conversion or replacement of, or in exchange for, a bond, bonds, or a portion of a bond or bonds of a Series which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

Dated

_____, _____

By _____
Authorized Representative

FORM OF ASSIGNMENT:

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned registered owner of this Bond, or duly authorized representative or attorney thereof, hereby assigns this Bond to

(Assignee's Social Security or Tax
Payer Identification Number)

(Print or type Assignee's Name and
Address Including Zip Code)

and hereby irrevocably constitutes and appoints _____
attorney, to transfer the registration of this Bond on the Paying Agent/Registrar's Registration Books with full
power of substitution in the premises.

Dated _____

NOTICE: This signature must be guaranteed by a member of the New York Stock Exchange or a commercial bank or trust company.

NOTICE: This signature must correspond with the name of the Registered Owner appearing on the face of this Bond in every particular without alteration or enlargement or any change whatsoever.

Section 8. DEFINITIONS. For all purposes of this Ordinance, except as otherwise expressly provided or unless the context otherwise requires, terms have the meanings assigned to them in this section.

"Additional Bonds" has the meaning assigned thereto in Section 26 of this Ordinance.

"Authorized Representative" means any of the following: the Mayor, the City Secretary, the City Manager, the Director of Finance, and any other officer or employee of the City appointed to serve as an "Authorized Representative" hereunder.

"Annual Debt Service Requirements" means, as of the date of calculation, the principal of and interest on the obligations coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand, to the extent permitted by law, conditioned upon default by the City during such fiscal year for which the annual debt service is being calculated, or be payable in respect of any required purchase of such Debt by the City) in such Fiscal Year. "Average Annual Debt Service Requirements" means that average amount which, at the time of computation, will be required to pay the Annual Debt Service Requirements when due (either at Stated Maturity or mandatory redemption) and derived by dividing the total of such Annual Debt Service Requirements by the number of Fiscal Years then remaining before Stated Maturity of such obligations. For the purposes of this definition, a fractional period of a Fiscal Year shall be treated as an entire Fiscal Year. Capitalized interest payments provided from bond proceeds, accrued interest on any Debt, and interest earnings thereon shall be excluded in making such computation.

"Bond" or "Bonds" means any or all of the City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2018.

"Bonds Similarly Secured" means the Previously Issued Bonds, the Bonds, and any Additional Bonds which are secured on equal dignity by a first lien on and pledge of the Net Revenues.

"City" and "Issuer" mean the City of McAllen, Texas, and where appropriate, the City Commission.

"Debt" and "Debt of the City payable from Pledged Revenues" means:

(1) all indebtedness payable from Pledged Revenues and/or Net Revenues incurred or assumed by the City for borrowed money and all other financing obligations of the System payable from Pledged Revenues and/or Net Revenues that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and

(2) all other indebtedness payable from Pledged Revenues and/or Net Revenues (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction or improvement of property or capitalized lease obligations pertaining to the System that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise.

For the purpose of determining Debt, there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository (a) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (b) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the System in prior Fiscal Years.

"Depository" means one or more official depository banks of the City.

"Designated Financial Officer" means the chief financial officer of the City, or such other financial or accounting official of the City so designated by the City Commission.

"Executive Administrator" means the Executive Administrator of the Texas Water Development Board.

"Fiscal Year" or "Year" means the twelve-month accounting period used by the City in connection with the operation of the System, currently ending on September 30 of each year, which may be any twelve consecutive month period established by the City, but in no event may the Fiscal Year be changed more than one time in any three calendar year period.

"Funded Debt" means all Bonds Similarly Secured created or assumed by the City that mature by their terms (in the absence of the exercise of any earlier right of demand), or that are renewable at the option of the City to a date, more than one year after the original creation or assumption of such Debt by the City.

"Government Obligations" shall mean (i) direct non-callable obligations of the United States, including obligations that are unconditionally guaranteed by, the United States of America; (ii) non-callable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; or (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

"Gross Revenues" and "Gross Revenues of the City's Waterworks and Sewer System" means all revenues, income and receipts of every nature derived or received by the City from the operation and ownership of the System.

"Holder" or "Holders" means the registered owner, whose name appears in the Security Register, for any Bonds Similarly Secured.

"Independent Engineer" means an individual, firm or corporation engaged in the engineering profession, being a registered professional engineer under the laws of the State of Texas, having specific experience with respect to water, wastewater, reuse water and/or storm water drainage systems similar to the System.

"Interest and Sinking Fund" means the special Fund created, established and maintained by the City and continued under the provisions of Sections 10 and 11 of this Ordinance.

"MSRB" means the Municipal Securities Rulemaking Board.

"Maintenance and Operating Expenses" means the reasonable and necessary expenses of operation and maintenance of the System as required by Section 1502.056, Texas Government Code, as amended, including all salaries, labor, materials, repairs and extensions necessary to render efficient service (but only such repairs and extensions as, in the judgment of the governing body of the City, are necessary to keep the System in operation and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or conditions which would otherwise impair the Bonds Similarly Secured), and all payments under contracts now or hereafter defined as operating expenses by the Legislature of Texas. Depreciation shall never be considered as a Maintenance and Operation Expense.

"Maturity" means, when used with respect to any Debt, the date on which the principal of such Debt or any installment thereof becomes due and payable as therein provided, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption, or otherwise.

"Maximum Annual Debt Service Requirements" means the greatest requirements of Annual Debt Service Requirements (taking into account all mandatory principal redemption requirements) scheduled to occur in any future Fiscal Year or in the then current Fiscal Year for the particular obligations for which such calculation is made. Capitalized interest payments provided from Debt proceeds, accrued interest on any Debt, and interest earnings thereon shall be excluded in making such computation.

"Net Revenues" and "Net Revenues of the City's Waterworks and Sewer System" mean all Gross Revenues after deducting therefrom an amount equal to the current expenses of operation and maintenance of the System, including all salaries, labor, materials, repairs, and extensions necessary to render efficient service, provided, however, that only such repairs and extensions, as in the judgment of the City Commission, reasonably and fairly exercised by the adoption of appropriate resolutions, are necessary to keep the System in operation and render adequate service to said Issuer and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair the Previously Issued Bonds, the Bonds, or Additional Bonds, shall be deducted in determining "Net Revenues". Payments required to be made by the Issuer for water supply or water facilities, sewer services or sewer facilities, fuel supply, which payments under law constitute and be regarded as expenses of operation and maintenance of the System under this Ordinance. Depreciation and amortization shall not constitute or be regarded as expenses of operation and maintenance of the System.

"Ordinance" means this ordinance.

"Outstanding", when used with respect to Bonds Similarly Secured, means, as of the date of determination, all Bonds Similarly Secured theretofore delivered under this Ordinance and any ordinance authorizing Additional Bonds, except:

- (1) Bonds Similarly Secured theretofore cancelled and delivered to the City or delivered to the Paying Agent/Registrar for cancellation;
- (2) Bonds Similarly Secured deemed paid pursuant to the provisions of Section 33 of this Ordinance or any comparable section of any ordinance authorizing Additional Bonds;

- (3) Bonds Similarly Secured upon transfer of or in exchange for and in lieu of which other Bonds Similarly Secured have been authenticated and delivered pursuant to this Ordinance and any ordinance authorizing Additional Bonds; and

"Paying Agent/Registrar" shall have the meaning set forth in Section 6(a) hereof.

"Permitted Investments" means, qualified investments as long as permitted under the Public Funds Investments Act, Chapter 2256, Texas Government Code, as amended.

"Pledged Revenues" means (1) the Net Revenues, plus (2) any additional revenues, income, receipts, or other resources, including, without limitation, any grants, donations or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which hereafter are pledged by the City to the payment of the Bonds Similarly Secured, and excluding those revenues excluded from Gross Revenues.

"Previously Issued Bonds" means the outstanding and unpaid obligations of the Issuer that are payable, in whole or in part, from and equally and ratably secured by a first lien on and pledge of the Net Revenues of the System and designated as follows:

Waterworks and Sewer System Revenue Bonds, Series 2009
Waterworks and Sewer System Revenue Bonds, Series 2012
Waterworks and Sewer System Revenue Bonds, Series 2013
Waterworks and Sewer System Revenue Bonds, Series 2013-A
Waterworks and Sewer System Revenue Bonds, Series 2013-B
Waterworks and Sewer System Revenue Refunding Bonds, Series 2015
Waterworks and Sewer System Revenue Bonds, Series 2015
Waterworks and Sewer System Revenue Refunding Bonds, Series 2016
Waterworks and Sewer System Revenue Bonds, Series 2016

"Project" means the acquisition, improvements, repairs and expansion of the City's Sewer System.

"Prudent Utility Practice" means any of the practices, methods and acts, in the exercise of reasonable judgment, in the light of the facts, including but not limited to the practices, methods and acts engaged in or previously approved by a significant portion of the public utility industry, known at the time the decision was made, that would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather is a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. In the case of any facility included in the System which is operated in common with one or more other entities, the term Prudent Utility Practice, as applied to such facility, shall have the meaning set forth in the agreement governing the operation of such facility.

"Rating Agency" means any nationally recognized securities rating agency which has assigned, at the request of the City, a rating to the Bonds Similarly Secured.

"Record Date" as used in connection with any bond or obligation, shall mean the close of business on the last or 15th business day of the month next preceding each Interest Payment Date.

"Required Reserve Fund Deposits" means the deposits and credits, if any, required to be made to the Reserve Fund pursuant to the provisions of Section 14 of this Ordinance.

"Rule" means SEC Rule 15c2-12, as amended from time to time.

"SEC" means the United States Securities and Exchange Commission.

"Special Record Date" shall be fifteen days prior to the scheduled payment date of past due interest.

"Special Project" means, to the extent permitted by law, any waterworks, sanitary sewer, wastewater reuse or municipal drainage system property, improvement or facility declared by the City not to be part of the System, for which the costs of acquisition, construction and installation are paid from proceeds of a financing transaction other than the issuance of bonds payable from ad valorem taxes, Pledged Revenues or Net Revenues and for which all maintenance and operation expenses are payable from sources other than ad valorem taxes, Pledged Revenues or Net Revenues, but only to the extent that and for so long as all or any part of the revenues or proceeds of which are or will be pledged to secure the payment or repayment of such costs of acquisition, construction and installation under such financing transaction.

"Stated Maturity" means the annual principal payments of the Bonds Similarly Secured payable on the respective dates set forth in the ordinances which authorize the issuance of such Bonds Similarly Secured.

"State" means the State of Texas.

"Subordinate Lien Obligations" means (i) any bonds, notes, warrants, certificates of obligation or other Debt issued by the City that are payable, in whole or in part, from and equally and ratably secured by a lien on and pledge of the Net Revenues, such pledge being subordinate and inferior to the lien on and pledge of the Net Revenues that are or will be pledged to the payment of any Bonds Similarly Secured and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by a lien on and pledge of the Net Revenues on a parity with the Subordinate Lien Obligations.

"Surety Bond" shall mean a reserve fund surety bond issued by a bond insurer guaranteeing certain payments into the Reserve Fund as provided in Section 14 hereof and subject to the provisions and limitations set forth in the surety bond.

"Surety Policy" shall mean a surety bond, insurance policy, letter of credit, or other agreement or instrument whereby the issuer is obligated to provide funds up to and including the maximum amount of debt service on the Bonds and under the conditions specified in such agreement or instrument.

"System" shall mean (1) the Issuer's entire existing waterworks and sewer system, together with all future extensions, improvements enlargements, and additions thereto, and all replacements thereof, and (2) any other related facilities, all or any part of the revenues or income from which, in the future, at the option of the Issuer, and in accordance with law, become "Gross Revenues" as heretofore defined; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term System shall not mean any water, sewer, or other facilities of any kind which are declared not to be a part of the System, and which are acquired or constructed by the Issuer with the proceeds from the issuance of

"Special Facilities Bonds", which are hereby defined as being special revenue obligations of the Issuer which are not payable from or secured by any Gross Revenues, but which are secured by and payable from liens on and pledges of any other revenues, sources, or payments, including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities; and such revenues, sources, or payments shall not be considered as or constitute Gross Revenues of the System, unless and to the extent otherwise provided in the ordinance or ordinances authorizing the issuance of such "Special Facilities Bonds".

Section 9. PLEDGE OF PLEDGED REVENUES. The City hereby covenants and agrees that the Pledged Revenues are hereby irrevocably pledged to the payment of principal and interest and security of the Bonds Similarly Secured, including the establishment and maintenance of the special funds created, established and maintained for the payment and security thereof, all as hereinafter provided; and it is hereby ordained that the Bonds Similarly Secured, and the interest thereon, shall constitute a first lien on and pledge of the Pledged Revenues and be valid and binding without any physical delivery thereof or further act by the City, and the lien created hereby on the Pledged Revenues for the payment and security of the Bonds Similarly Secured, including the establishment and maintenance of the special funds created, established and maintained for the payment and security thereof, and the amounts payable from such funds shall be superior to the lien on and pledge of the Net Revenues securing payment of any Subordinate Lien Obligations hereafter issued by the City.

Section 10. SPECIAL FUNDS. The below listed special Funds have been created and established and shall be maintained on the books of the City, so long as any of the Bonds Similarly Secured are outstanding and unpaid:

(a) City of McAllen, Texas Waterworks and Sewer System Fund, hereinafter called the "System Fund";

(b) City of McAllen, Texas Waterworks and Sewer System Revenue Bonds Interest and Sinking Fund, hereinafter called the "Interest and Sinking Fund";

(c) City of McAllen, Texas Waterworks and Sewer System Reserve Fund, hereinafter called the "Reserve Fund".

If such funds shall be sub-accounts of the City's General Fund held by the City's depository, and, as such, not held in separate bank accounts, such treatment shall not constitute a commingling of the monies in such funds or of such funds and the City shall keep full and complete records indicating the monies and investments credited to each of such funds.

Section 11. SYSTEM FUND; INTEREST AND SINKING FUND; RESERVE FUND; DEPOSIT OF NET REVENUES. There has been created and there shall be established and maintained on the books of the City, and accounted for separate and apart from all other funds of the City, a special fund to be entitled the City of McAllen Waterworks and Sewer System Fund" (the "System Fund"). All Gross Revenues shall be deposited and credited to the System Fund immediately as collected and received, unless otherwise provided for in this Ordinance. Current expenses of the maintenance and operation of the System shall be paid from such Gross Revenues credited to the System Fund as a first charge against same. Before making any deposits hereinafter required to be made from the System Fund, the Issuer shall retain in the System Fund at all times an amount equal at least to one-sixth of the amount budgeted for the then current fiscal year for the current operation and maintenance expenses of the System.

For the purpose of paying the principal and interest on all Bond Similarly Secured, there has been created and there shall be established and maintained on the books of the City, and accounted for separate and apart from all other funds of the City, a separate fund entitled the "City of McAllen, Texas Waterworks and Sewer System Interest and Sinking Fund (the "Interest and Sinking Fund").

For the purpose of paying the principal of and interest on all Bonds Similarly Secured, when and to the extent the amounts in the Interest and Sinking Fund available for such payment are insufficient for such purpose, there has been created and there shall be established and maintained on the books of the City, and accounted for separate and apart from all other funds of the City, a separate fund to be entitled "City of McAllen Waterworks and Sewer System Reserve Fund" (the "Reserve Fund"). Net Revenues shall be credited to or deposited in the Interest and Sinking Fund, the Reserve Fund and other funds when and as required by the ordinances authorizing the issuance of Bonds Similarly Secured.

Section 12. FLOW OF FUNDS. All Gross Revenues deposited and credited to the System Fund shall be pledged and appropriated subject to Section 9, to the extent required, for the following uses and in the order of priority shown:

FIRST: to the payment of the amounts required to be deposited and credited to the Interest and Sinking Fund created and established for the payment of the Bonds Similarly Secured, the Bonds, and any Additional Bonds issued by the City as the same become due and payable, and other Bonds Similarly Secured-related payments, including bank liquidity fees and remarketing fees, if any;

SECOND: pro rata to the payment of the amounts required to be deposited and credited (i) to the Reserve Fund created and established to maintain the Required Reserve Amount in accordance with the provisions of this Ordinance, including amounts owed with respect to any Surety Bond, if any, to restore the Required Reserve Amount and (ii) to each other reserve fund created and established to maintain a reserve in accordance with the provisions of the ordinances relating to the issuance of any Bonds Similarly Secured and Additional Bonds hereafter issued by the City; and

THIRD: for all payments made with respect to any Subordinate Lien Obligations, which the Issuer has specifically reserved the right to issue under Section 28 of this Ordinance, and then for any other lawful purpose.

Section 13. INTEREST AND SINKING FUND REQUIREMENTS. On or before December 31, 2016, and on or before the 30th day of each and every month thereafter, the Issuer shall cause to be deposited to the credit of the Interest and Sinking Fund, in approximately equal monthly payments, amounts sufficient, together with any other funds on hand therein, to pay all of the interest or principal and interest coming due on the Bonds Similarly Secured on the next succeeding interest payment date.

The required monthly deposits and credits to the Interest and Sinking Fund shall continue to be made as hereinabove provided until such time as (i) the total amount on deposit in and credited to the Interest and Sinking Fund is equal to the amount required to fully pay and discharge all outstanding Bonds Similarly Secured (principal, premium, if any, and interest) or (ii) the Bonds Similarly Secured are no longer outstanding. Amounts on deposit in and credited to the Reserve Fund and each reserve fund established for any series of Bonds Similarly Secured shall, for purposes of this test, be deemed to be on deposit in and credited to the Interest and Sinking Fund for the sole benefit of the Bonds or the specific series of Bonds Similarly Secured for which such reserve fund was created, as the case may be. Amounts credited to the

Reserve Fund and to each Reserve Fund established for any particular series of Bonds Similarly Secured by virtue of a Surety Bond, with respect to the Bonds, or any instrument comparable to a Surety Bond held in such Reserve Fund shall not be deemed to be on deposit in and credited to the Interest and Sinking fund for the purpose specified in (ii) above.

Accrued interest and capitalized interest, if any, received from the purchaser of any Bonds Similarly Secured shall be taken into consideration and reduce the amount of the deposits and credits hereinabove required into the Interest and Sinking Fund.

Section 14. RESERVE FUND; RESERVE FUND SURETY INSURER; MUNICIPAL BOND INSURANCE. (a) In connection with the issuance of the Previously Issued Bonds identified in the definition thereof as the "Series 2009 Bonds" (which were purchased and currently are held by the Texas Water Development Board), the Issuer determined and committed to fund the Reserve Fund, for the benefit of the holder of the Series 2009 Bonds in the amount of the average annual principal and interest requirements of such Series 2009 Bonds. Section 26(c) of the ordinance which authorized the Series 2009 Bonds permits the Issuer, in connection with the issuance of a series of Additional Bonds (such as the Bonds authorized by this Ordinance), to create a reserve fund "for the purpose of securing that particular issue or series of Additional Bonds or any specific group of issues or series of Additional Bonds" Because the Series 2009 Bonds and the Previously Issued Bonds identified in the definition thereof as the "Series 2012 Bonds" were going to be owned by the same owner (i.e., the Texas Water Development Board), the Issuer, in the Ordinance authorizing the Series 2012 Bonds, provided that the Reserve Fund that was funded in connection with the Series 2009 Bonds to also jointly secure the Series 2012 Bonds and the Texas Water Development Board consented to such joint security. Accordingly, upon the issuance of the Series 2012 Bonds, the average annual principal and interest requirements for the Series 2009 Bonds and the Series 2012 Bonds equaled \$1,365,872, which amount was \$49,705 greater than the amount required to be accumulated in the Reserve Fund when the Series 2009 Bonds initially were issued. In order to accumulate this required amount of cash and investments in the Reserve Fund within 60 months after the issuance of the Series 2012 Bonds, the Issuer began making monthly cash deposits in the amount of \$24,009 on the 30th day of each month, commencing on August 30, 2012 through July 30, 2014, and thereafter on the 30th day of each month in the amount of \$21,937 for the next 36 monthly payments.

Because the Series 2009 Bonds, the Series 2012 Bonds, and the Previously Issued Bonds identified in the definition thereof as the "Series 2013 Bonds," the "Series 2013-A Bonds" and the "Series 2013-B Bonds" were going to be owned by the same owner (i.e., the Texas Water Development Board), the Issuer, in the Ordinances authorizing the Series 2013 Bonds, the Series 2013-A Bonds and the Series 2013-B Bonds provided that the Reserve Fund that was funded in connection with the Series 2009 Bonds and the Series 2012 Bonds would also jointly secure the Series 2013 Bonds, the Series 2013-A Bonds and the Series 2013-B Bonds, and the Texas Water Development Board consented to such joint security. Accordingly, upon the issuance of the Series 2013 Bonds, the Series 2013-A Bonds and the Series 2013-B Bonds, the average annual principal and interest requirements for the Series 2009 Bonds, the Series 2012 Bonds, the Series 2013 Bonds, and Series 2013-A Bonds and the Series 2013-B Bonds equaled \$1,635,016, which amount was \$267,215 greater than the amount required to be accumulated in the Reserve Fund when the Series 2012 Bonds initially were issued. In order to accumulate this required amount of cash and investments in the Reserve Fund within 60 months following the issuance of the Series 2013 Bonds, the Series 2013-A Bonds and the Series 2013-B Bonds, the Issuer began making additional monthly cash deposits (i.e., in addition to the monthly deposits described in the preceding paragraph) in the amount of not less than (i) \$6,344.73 for the first 24 months after the issuance of the Series 2013 Bonds, the Series 2013-A Bonds and the Series 2013-B Bonds, and (ii) \$3,192.82 for the following 36 months.

Upon the issuance of the Series 2015 Bonds, such bonds also to be owned by the Texas Water Development Board and to be jointly secured by the reserve fund securing the Series 2009 Bonds, the Series 2012 Bonds, the Series 2013 Bonds, the Series 2013-A Bonds and the Series 2013-B Bonds, the average annual principal and interest requirements for the Series 2009 Bonds, the Series 2012 Bonds, the Series 2013 Bonds, the Series 2013-A Bonds, the Series 2013-B Bonds and the Series 2015 Bonds was equal to **\$3,117,990** and the amount that was be on deposit in the Reserve Fund on the date of issuance of the Series 2015 Bonds was **\$1,400,827**. Accordingly, the aggregate amount required to be deposited into the Reserve Fund following the issuance of the Series 2015 Bonds in order to fully fund the Reserve Fund to the Required Reserve Amount within five years from the date of issuance of the Series 2015 Bonds was **\$1,717,163.23**. In order to accumulate this required amount of cash and investments in the Reserve Fund within 60 months after the issuance of the Series 2015 Bonds, the Issuer began making monthly cash deposits in the amount not less than **\$34,923.19** on or before the 30th day of each month, commencing on May 31, 2015 through September 30, 2015, and thereafter on the 30th day of each month in the amount of not less than **\$28,619.39** until the amount on deposit in the Reserve Fund was equal to not less than the Required Reserve Amount.

Upon the issuance of the Series 2016 Bonds, such bonds also to be owned by the Texas Water Development Board and to be jointly secured by the reserve fund securing the Series 2009 Bonds, the Series 2012 Bonds, the Series 2013 Bonds, the Series 2013-A Bonds, the Series 2013-B Bonds, and the Series 2015 Bonds, the average annual principal and interest requirements for the Series 2009 Bonds, the Series 2012 Bonds, the Series 2013 Bonds, the Series 2013-A Bonds, the Series 2013-B Bonds and the Series 2015 Bonds was equal to **\$3,163,011** and the amount that was be on deposit in the Reserve Fund on the date of issuance of the Series 2016 Bonds was **\$2,025,422**. Accordingly, the aggregate amount required to be deposited into the Reserve Fund following the issuance of the Series 2016 Bonds in order to fully fund the Reserve Fund to the Required Reserve Amount within five years from the date of issuance of the Series 2015 Bonds was **\$1,137,589**. In order to accumulate this required amount of cash and investments in the Reserve Fund within 60 months after the issuance of the Bonds, and notwithstanding anything set forth in the preceding two paragraphs with respect to monthly payment amounts, the Issuer shall begin making monthly cash deposits in the amount not less than **\$18,959.82** on or before the 30th day of each month, commencing on January 31, 2017, until the amount on deposit in the Reserve Fund is equal to not less than the Required Reserve Amount.

Upon the issuance of the Bonds, also to be owned by the Texas Water Development Board and to be jointly secured by the reserve fund securing the Series 2009 Bonds, the Series 2012 Bonds, the Series 2013 Bonds, the Series 2013-A Bonds, the Series 2013-B Bonds, the Series 2015 Bonds, and the Series 2016 Bonds, the average annual principal and interest requirements for the Series 2009 Bonds, the Series 2012 Bonds, the Series 2013 Bonds, the Series 2013-A Bonds, the Series 2013-B Bonds, the Series 2015 Bonds, the Series 2016 Bonds and the Bonds authorized by this Ordinance will be equal to \$_____ (the "Required Reserve Amount"), and the amount that will be on deposit in the Reserve Fund on the date of issuance of the Bonds will be not less than \$_____. Accordingly, the aggregate amount required to be deposited into the Reserve Fund following the issuance of the Bonds in order to fully fund the Reserve Fund to the Required Reserve Amount within five years from the date of issuance of the Bonds is \$_____. In order to accumulate this required amount of cash and investments in the Reserve Fund within 60 months after the issuance of the Bonds, and notwithstanding anything set forth in the preceding three paragraphs with respect to monthly payment amounts, the Issuer shall begin making monthly cash deposits in the amount not less than \$_____ on or before the 30th day of each month, commencing on _____, 2018, until the amount on deposit in the Reserve Fund is equal to not less than the Required Reserve Amount.

After the delivery of any Additional Bonds, the Issuer shall cause the Reserve Fund to be increased, if and to the extent necessary, so that such fund will contain an amount of money and investments equal to the Required Reserve Amount. Any increase in the Required Reserve Amount may be funded from Net Revenues or from proceeds from the sale of any Additional Bonds, or any other available source or combination of sources. All or any part of the Required Reserve Amount not funded initially and immediately after the delivery of any installment or issue of Additional Bonds shall be funded, within not more than five years from the date of such delivery by deposits of Net Revenues in approximately equal monthly installments on or before the 30th day of each month. Principal amounts of the Previously Issued Bonds, the Bonds and any Additional Bonds which must be redeemed pursuant to any applicable mandatory redemption provisions shall be deemed to be maturing amounts of principal for the purpose of calculating principal and interest requirements on such Bonds. When and so long as the amount in the Reserve Fund is not less than the Required Reserve Amount no deposits shall be made to the credit of the Reserve Fund; but when and if the Reserve Fund at any time contains less than the Required Reserve Amount, then the Issuer shall transfer from Net Revenues in the System Fund, and deposit to the credit of the Reserve Fund, monthly, on or before the 30th day of each month, a sum equal to 1/60th of the Required Reserve Amount, until the Reserve Fund is restored to the Required Reserve Amount. The Issuer shall cause all interest and income derived from the deposit or investment of the Reserve Fund to be deposited to the credit of the Interest and Sinking Fund.

(b) The Issuer, at its option and consistent with the provisions of this Section, may fund the Required Reserve Amount by purchasing a Surety Policy that will unconditionally obligate the insurance company or other entity to pay all, or any part thereof, of the Required Reserve Amount in the event funds on deposit in the Reserve Fund are not sufficient to pay the debt service requirements on the Bonds Similarly Secured. If such Surety Policy constitutes a "Credit Agreement" pursuant to Chapter 1371 of the Government Code, the City shall submit, pursuant to and for so long as required by Section 1371.057 of the Government Code or other applicable State of Texas law provision, such Credit Agreement for review and approval by the Texas Attorney General. All ordinances adopted after the date hereof authorizing the issuance of Additional Bonds shall contain a provision to this effect. Section 14 (c) and (d) of this Ordinance contains certain provisions relating to the Surety Bond. The Issuer reserves the right to use Gross Revenues of the System to fund the payment of (1) periodic premiums on the Surety Policy as a part of the payment of Maintenance and Operating Expenses, and (2) any repayment obligation incurred by the Issuer (including interest) to the issuer of the Surety Policy, the repayment of which will result in the reinstatement of such Surety Policy, prior to making payments required to be made to the Reserve Fund pursuant to the provisions of this Section to restore the balance in such fund to the Required Reserve Amount for the Bonds Similarly Secured.

(c) In the event an insurance policy issued to satisfy all or part of the Issuer's obligation with respect to the Reserve Fund causes the amount then on deposit in the Reserve Fund to exceed the Required Reserve Amount, the Issuer may transfer such excess amount to any fund or account established for the payment of or security for Bonds (including any escrow established for the final payment of any such obligations pursuant to Chapter 1207, as amended, Texas Government Code), or use such excess amount for any lawful purpose now or hereafter provided by law; provided, however, to the extent that such excess amount represents Bond proceeds, then such amount must be transferred to the Interest and Sinking Fund.

(d) As long as the Bonds, or any of them, are owned by the Texas Water Development Board, the Issuer may obtain a future Surety Policy, pursuant to Section 14 (b), only if (i) the financial guarantor meets the Texas Water Development Board's adopted standards and rating criteria, (ii) the Executive Administrator of the Texas Water Development Board is notified in advance of the Issuer's intent to obtain a Surety Policy, (iii) a copy of the proposed Surety Policy is forwarded to Texas Water Development Board staff for review, and (iv) the Executive Administrator of the Texas Water Development Board provides written approval of such Surety Policy.

Section 15. INVESTMENTS; FUNDS SECURED. (a) Money in any Fund established pursuant to this Ordinance or any ordinance authorizing the issuance of Additional Bonds, may, at the option of the Issuer, be placed in time deposits or certificates of deposit secured by obligations of the type hereinafter described, or be invested in Government Obligations (as defined in Section 1 hereof) or obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in obligations of instrumentalities of the United States of America, including, but not limited to, evidences of indebtedness issued, insured, or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, United States Postal Service, Farmers Home Administration, Federal Home Loan Mortgage Association, Small Business Administration, Federal Housing Association, or Participation Certificates in the Federal Assets Financing Trust; provided that all such deposits and investments shall be made in such manner as will, in the opinion of the Issuer, permit the money required to be expended from any Fund to be available at the proper time or times as expected to be needed. Such investments (except United States Treasury Obligations-State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value as of the last day of each fiscal year. Unless otherwise set forth herein, all interest and income derived from such deposits and investments immediately shall be credited to, and any losses debited to, the Fund from which the deposit or investment was made, and surpluses in any Fund shall or may be disposed of as hereinafter provided. Such investments shall be sold promptly when necessary to prevent any default in connection with the Previously Issued Bonds, the Bonds, or Additional Bonds consistent with the ordinances, respectively, authorizing their issuance.

(b) That money in all Funds created by this Ordinance, to the extent not invested, shall be secured in the manner prescribed by law.

Section 16. EXCESS BOND PROCEEDS. Any proceeds of Bonds Similarly Secured not required to effectuate the purposes for which such Bonds Similarly Secured were issued, as provided in the respective ordinances authorizing the issuance of such Bonds Similarly Secured, or for the payment of the costs of issuance of such Bonds Similarly Secured shall be deposited and credited to the Interest and Sinking Fund and shall be taken into consideration and shall reduce the amount of deposits and credits to the Interest and Sinking Fund from the Pledged Revenues or used to redeem or purchase Bonds Similarly Secured.

Section 17. DEFICIENCIES - EXCESS PLEDGED OR NET REVENUES. (a) If on any occasion there shall not be sufficient Pledged Revenues to make the required deposits and credits to the Interest and Sinking Fund and the Reserve Fund, then such deficiency shall be cured as soon as possible from the next available unallocated Net Revenues, or from any other sources available for such purpose, and such deposits and credits shall be in addition to the amounts otherwise required to be deposited and credited to these Funds.

(b) Subject to making the deposits and credits required by this Ordinance, or any ordinances authorizing the issuance of Bonds Similarly Secured, or the payments and credits required by the provisions of the ordinances authorizing the issuance of Subordinate Lien Obligations, the excess Net Revenues may be used for any lawful purpose.

(c) All interest and income derived from such investments (other than interest and income derived from amounts credited to the Interest and Sinking Fund does not contain the Required Reserve Amount) shall be credited to the System Fund semi-annually.

Section 18. PAYMENT OF BONDS AND ADDITIONAL BONDS. While any of the Bonds Similarly Secured are outstanding, the City shall transfer to the respective paying agent/registrars therefor, from funds on deposit in and credited to the Interest and Sinking Fund, and, if necessary, funds on deposit in the Reserve Fund, amounts sufficient to fully pay and discharge promptly the interest on and principal of the Bonds Similarly Secured as shall become due on each interest or principal payment date, or date of redemption of the Bonds Similarly Secured; such transfer of funds must be made in such manner as will cause immediately available funds to be deposited with each respective paying agent/registrars for the Bonds Similarly Secured not later than the business day next preceding the date such payment is due on the Bonds Similarly Secured; provided that funds withdrawn from a reserve fund established for a particular issue or series of Bonds Similarly Secured shall only be used to pay the principal of and interest on such Bonds Similarly Secured. The Paying Agent/Registrar shall destroy all paid Bonds Similarly Secured and furnish the City with an appropriate certificate of cancellation or destruction.

Section 19. RATES AND CHARGES. (a) The City and the Utility will at all times fix, maintain charge, and collect for services rendered by the System, rates and charges which will produce Gross Revenues at least sufficient to pay all expenses of operation and maintenance of the System and to provide an additional amount of Net Revenues to pay promptly all of the principal of and interest on the Bonds Similarly Secured, which amount shall be at least equal to 1.25 times the annual principal and interest requirements for the Bonds Similarly Secured, and to make all deposits now or hereafter required to be made into the Funds established by this Ordinance in connection with the Bonds Similarly Secured.

(b) If the System should become legally liable for any other obligations or indebtedness, the City shall fix, maintain, charge and collect additional rates and charges for services rendered by the System sufficient to establish and maintain funds for the payment thereof.

Section 20. GENERAL COVENANTS. The City and the Utility Board further covenant and agree that in accordance with and to the extent required or permitted by law:

(a) Performance. It will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in any ordinance authorizing the issuance of Bonds Similarly Secured; that it will promptly pay or cause to be paid the principal of and interest on every outstanding Bond Similarly Secured, on the dates and in the places and manner prescribed in such ordinances authorizing the Bonds Similarly Secured; and it will, at the times and in the manner prescribed, deposit and credit or cause to be deposited and credited the amounts required to be deposited and credited to the Interest and Sinking Fund and the Reserve Fund; and any holder of the Bonds Similarly Secured may require the Issuer, its officials, and employees, to carry out, respect, or enforce the covenants and obligations of the ordinances authorizing the issuance of Bonds Similarly Secured, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings, in any court of competent jurisdiction, against the Issuer, its officials, and employees.

(b) City's Legal Authority. The City is a duly created and existing home rule city of the State of Texas, and is duly authorized under the laws of the State of Texas to create and issue the Bonds and Additional Bonds; that all action on its part for the creation and issuance of the Bonds has been duly and effectively taken, and that the Bonds in the hands of the holders thereof are and will be valid and enforceable special obligations of the City in accordance with their terms.

(c) Title. The City has or will obtain lawful title to the lands, buildings, structures and facilities constituting the System, that it warrants that it will defend the title to all the aforesaid lands, buildings, structures and facilities, and every part thereof, for the benefit of the holders of the Bonds Similarly Secured, against the claims and demands of all persons whomsoever, that it is lawfully qualified to pledge the Pledged Revenues to the payment of the Bonds Similarly Secured in the manner prescribed herein, and has lawfully exercised such rights.

(d) Liens. The City will from time to time and before the same become delinquent pay and discharge all taxes, assessments and governmental charges, if any, which shall be lawfully imposed upon it, or the System; it will pay all lawful claims for rents, royalties, labor, materials and supplies which if unpaid might by law become a lien or charge thereon, the lien of which would be prior to or interfere with the liens hereof, so that the priority of the liens granted hereunder shall be fully preserved in the manner provided herein, and it will not create or suffer to be created any mechanic's, laborer's, materialman's or other lien or charge which might or could be prior to the liens hereof, or do or suffer any matter or thing whereby the liens hereof might or could be impaired; provided, however, that no such tax, assessment or charge, and that no such claims which might be used as the basis of a mechanic's, laborer's, materialman's or other lien or charge, shall be required to be paid so long as the validity of the same shall be contested in good faith by the City.

(e) Operation of System: No Free Service. The City will, while the Bonds Similarly Secured are outstanding and unpaid, continuously and efficiently operate the System, and shall maintain the System in good condition, repair and working order, all at reasonable cost. No free service of the System shall be allowed, and should the City or any of its agencies or instrumentalities make use of the services and facilities of the System, payment of the reasonable value shall be made by the City out of funds from sources other than the Gross Revenues of the System, unless made from surplus or excess Pledged Revenues as permitted in Section 10.

(f) Further Encumbrance. While the Bonds Similarly Secured are outstanding and unpaid, it will not additionally encumber the Pledged Revenues in any manner, except as permitted in this Ordinance in connection with Additional Bonds, unless said encumbrance is made junior and subordinate in all respects to the liens, pledges, covenants and agreements of this Ordinance; but the right of the City to issue or incur obligations payable from a subordinate lien on the Pledged Revenues is specifically recognized and retained.

(g) Sale or Disposal of Property. While the Bonds Similarly Secured are outstanding and unpaid, it will not sell, convey, mortgage, encumber, lease or in any manner transfer title to, or otherwise dispose of the System, or any significant or substantial part thereof; provided that whenever the City deems it necessary to dispose of any other property, machinery, fixtures or equipment, it may sell or otherwise dispose of such property, machinery, fixtures or equipment when it has made arrangements to replace the same or provide substitutes therefore, unless it is determined that no such replacement or substitute is necessary.

(h) Insurance. (1) It shall cause to be insured such parts of the System as would usually be insured by municipal corporations operating like properties, with a responsible insurance company or companies, against risks, accidents or casualties against which and to the extent insurance is usually carried by municipal corporations operating like properties, including, to the extent reasonably obtainable, fire and extended coverage insurance, insurance against damage by floods, and use and occupancy insurance. Public liability and property damage insurance shall also be carried unless the City Attorney of the City gives a written opinion to the effect that the City is not liable for claims which would be protected by such insurance. At any time while any contractor engaged in construction work shall be fully responsible therefor, the City shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate

insurance. All such policies shall be open to the inspection of the Holders and their representatives at all reasonable times. Upon the occurrence of any loss or damage covered by insurance from one or more of said causes, the City shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the City. The proceeds of insurance covering such property are hereby pledged as security for the Bonds Similarly Secured and, together with any other funds necessary and available for such purpose, shall be used forthwith by the City for repairing the property damaged or replacing the property destroyed; provided, however, that if said insurance proceeds and other funds are insufficient for such purpose, then said insurance proceeds pertaining to the System shall be deposited in a special and separate trust fund, at an official depository of the City, to be designated the Insurance Account. The Insurance Account shall be held until such time as the foregoing clauses (i) and/or (ii) can be complied with, or until other funds become available which, together with the Insurance Account, will be sufficient to make the repairs or replacements originally required, whichever of said events occurs first.

(2) The foregoing provisions of (i) above notwithstanding, the City shall have authority to enter into coinsurance or similar plans where risk of loss is shared in whole or in part by the City.

(3) The annual audit hereinafter required shall contain a section commenting on whether or not the City has complied with the requirements of this Section with respect to the maintenance of insurance, and listing all policies carried, and whether or not all insurance premiums upon the insurance policies to which reference is hereinbefore made have been paid.

(4) The payment of premiums for all insurance policies required under the provisions hereof and the costs associated with the maintenance of any self-insurance program shall be considered Maintenance and Operating Expenses. Nothing in this Ordinance shall be construed as requiring the City to expend any funds which are derived from sources other than the operation of the System, but nothing herein shall be construed as preventing the City from doing so.

(5) Governmental Agencies. It will comply with all of the terms and conditions of any and all franchises, permits and authorizations applicable to or necessary with respect to the System, and which have been obtained from any governmental agency; and the City's consulting engineer has or will obtain and keep in full force and effect all franchises, permits, authorization and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation and maintenance of the System.

(6) No Competition. It will not operate, or grant any franchise or permit, to the extent it legally may, for the acquisition, construction or operation of any competing facilities which might be used as a substitute for the System's facilities, and, to the extent that it legally may, the City will prohibit any such competing facilities.

Section 21. RECORDS AND ACCOUNTS - ANNUAL AUDIT. The City covenants and agrees that so long as any of the Bonds Similarly Secured remain Outstanding, the City will keep and maintain a separate and complete system of records and accounts pertaining to the operations of the System in which full, complete, true, proper, and correct entries shall be made of all dealings, transactions, business and affairs relating thereto, or which in any way affect or pertain to the System or the Gross Revenues or the Net Revenues thereof, as provided by generally accepted accounting principles, consistently applied, and by Chapter 1502, Texas Government Code, as amended, or other applicable law. The Holders of the Bonds Similarly Secured or any duly authorized agent or agents of such Holders shall have the right to inspect the System and all properties comprising the same. The City further agrees that, following the close of each Fiscal

Year, the City will cause an audit report of such records and accounts to be made by an Accountant. Copies of each annual audit shall be made available for public inspection during normal business hours at the City's principal office and the City Secretary's office and may be furnished to, upon written request, any Holder upon payment of the reasonable copying and mailing charges. Expenses incurred in making the annual audit of the operations of the System shall be considered as Maintenance and Operating Expenses.

Section 22. COVENANTS REGARDING TAX EXEMPTION. (a) Covenants. The City covenants to take any action necessary to assure, or refrain from any action that would adversely affect, the treatment of the Bonds as obligations described in section 103 of the Code, the interest on which is not includable in the "gross income" of the holder for purposes of federal income taxation. In furtherance thereof, the City covenants as follows:

(i) to take any action to assure that no more than 10 percent of the proceeds of the Bonds or any prior obligations or the projects financed or refinanced therewith (less amounts deposited to a reserve fund, if any) are used for any "private business use," as defined in section 141(b)(6) of the Code or, if more than 10 percent of the proceeds of the Bonds or any prior obligations or the projects financed or refinanced therewith are so used, such amounts, whether or not received by the City, with respect to such private business use, do not, under the terms of this Ordinance or any underlying arrangement, directly or indirectly, secure or provide for the payment of more than 10 percent of the debt service on the Bonds, in contravention of section 141(b)(2) of the Code;

(ii) to take any action to assure that in the event that the "private business use" described in subsection (i) hereof exceeds 5 percent of the proceeds of the Bonds or any prior obligations or the projects financed or refinanced therewith (less amounts deposited into a reserve fund, if any) then the amount in excess of 5 percent is used for a "private business use" that is "related" and not "disproportionate," within the meaning of section 141(b)(3) of the Code, to the governmental use;

(iii) to take any action to assure that no amount that is greater than the lesser of \$5,000,000, or 5 percent of the proceeds of the Bonds (less amounts deposited into a reserve fund, if any) is directly or indirectly used to finance loans to persons, other than state or local governmental units, in contravention of section 141(c) of the Code;

(iv) to refrain from taking any action that would otherwise result in the Bonds being treated as "private activity bonds" within the meaning of section 141(b) of the Code;

(v) to refrain from taking any action that would result in the Bonds being "federally guaranteed" within the meaning of section 149(b) of the Code;

(vi) to refrain from using any portion of the proceeds of the Bonds, directly or indirectly, to acquire or to replace funds that were used, directly or indirectly, to acquire investment property (as defined in section 148(b)(2) of the Code) that produces a materially higher yield over the term of the Bonds, other than investment property acquired with -

(A) proceeds of the Bonds invested for a reasonable temporary period of 3 years or less or, in the case of a refunding bond, for a period of 30 days or less until such proceeds are needed for the purpose for which the Bonds are issued,

(B) amounts invested in a bona fide debt service fund, within the meaning of section 1.148-1(b) of the Treasury Regulations, and

(C) amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed 10 percent of the proceeds of the Bonds;

(vii) to otherwise restrict the use of the proceeds of the Bonds or amounts treated as proceeds of the Bonds, as may be necessary, so that the Bonds do not otherwise contravene the requirements of section 148 of the Code (relating to arbitrage) and, to the extent applicable, section 149(d) of the Code (relating to advance refundings);

(viii) to pay to the United States of America at least once during each five-year period (beginning on the date of delivery of the Bonds) an amount that is at least equal to 90 percent of the "Excess Earnings," within the meaning of section 148(f) of the Code and to pay to the United States of America, not later than 60 days after the Bonds have been paid in full, 100 percent of the amount then required to be paid as a result of Excess Earnings under section 148(f) of the Code; and

(ix) to file or cause to be filed with the Secretary of the Treasury, not later than the 15th day of the second calendar month after the close of the calendar quarter in which the Bonds are issued, an information statement concerning the Bonds, all under and in accordance with section 149(e) of the Code and the applicable Treasury Regulations promulgated thereunder.

(x) The City will not acquire any of the Texas Water Development Board's source series bonds in an amount related to the amount of Bonds acquired by the Texas Water Development Board.

(b) Rebate Fund. In order to facilitate compliance with Section (a)(viii) of this Ordinance, a "Rebate Fund" is hereby established by the City for the sole benefit of the United States of America, and such Fund shall not be subject to the claim of any other person, including without limitation the bondholders. The Rebate Fund is established for the additional purpose of compliance with section 148 of the Code.

(c) Use of Proceeds. For purposes of the foregoing covenants, the City understands that the term "proceeds" includes "disposition proceeds" as defined in the Treasury Regulations and, in the case of refunding bonds, transferred proceeds (if any) and proceeds of the refunded bonds expended prior to the date of issuance of the Bonds. It is the understanding of the City that the covenants contained herein are intended to assure compliance with the Code and any regulations or rulings promulgated by the U.S. Department of the Treasury pursuant thereto. In the event that regulations or rulings are hereafter promulgated that modify or expand provisions of the Code, as applicable to the Bonds, the City will not be required to comply with any covenant contained herein to the extent that such failure to comply, in the opinion of nationally recognized bond counsel, will not adversely affect the exemption from federal income taxation of interest on the Bonds under section 103 of the Code. In the event that regulations or rulings are hereafter promulgated that impose additional requirements applicable to the Bonds, the City agrees to comply with the additional requirements to the extent necessary, in the opinion of nationally recognized bond counsel, to preserve the exemption from federal income taxation of interest on the Bonds under section 103 of the Code. In furtherance of such intention, the City hereby authorizes and directs the Mayor or City Manger to execute any documents, certificates or reports required by the Code and to make such elections, on behalf of the City, that may be permitted by the Code as are consistent with the purpose for the issuance of the Bonds.

(d) Written Procedures. Unless superseded by another action of the City, to ensure compliance with the covenants contained herein regarding private business use, remedial actions, arbitrage and rebate, the City Council of the City hereby adopts and establishes the instructions attached hereto as Exhibit A as the City's written procedures.

Section 23. ALLOCATION OF, AND LIMITATION ON, EXPENDITURES FOR THE PROJECT. The City covenants to account for the expenditure of sale proceeds and investment earnings to be used for the Project on its books and records in accordance with the requirements of the Code. The City recognizes that in order for the proceeds to be considered used for the reimbursement of costs, the proceeds must be allocated to expenditures within 18 months of the later of the date that (i) the expenditure is made, or (ii) the Project is completed; but in no event later than three years after the date on which the original expenditure is paid. The foregoing notwithstanding, the City recognizes that in order for proceeds to be expended under the Internal Revenue Code, the sale proceeds or investment earnings must be expended no more than 60 days after the earlier of (i) the fifth anniversary of the delivery of the Bonds, or (ii) the date the Bonds are retired. The City agrees to obtain the advice of nationally-recognized bond counsel if such expenditure fails to comply with the foregoing to assure that such expenditure will not adversely affect the tax-exempt status of the Bonds. For purposes hereof, the City shall not be obligated to comply with this covenant if it obtains an opinion that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest

Section 24. DISPOSITION OF PROJECT. The City covenants that the Project (or any portions thereof) will not be sold or otherwise disposed in a transaction resulting in the receipt by the City of cash or other compensation, unless the City obtains an opinion of nationally-recognized bond counsel that such sale or other disposition will not adversely affect the tax-exempt status of the Bonds. For purposes of the foregoing, the portion of the property comprising personal property and disposed in the ordinary course shall not be treated as a transaction resulting in the receipt of cash or other compensation. For purposes hereof, the City shall not be obligated to comply with this covenant if it obtains a legal opinion that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest.

Section 25. COMPLIANCE WITH RULE 15c2-12.

(a) Definitions. As used in this Section, the following terms have the meanings ascribed to such terms below:

"EMMA" means the Electronic Municipal Market Access system being established by the MSRB.

"MSRB" means the Municipal Securities Rulemaking Board.

"Rule" means SEC Rule 15c2-12, as amended from time to time.

"SEC" means the United States Securities and Exchange Commission.

(b) Annual Reports. The City shall provide annually to the MSRB through EMMA within six months after the end of each fiscal year ending in or after 2018, financial information and operating data with respect to the City of the general type described in Exhibit B hereto. Any financial statements so to be provided shall be (1) prepared in accordance with the accounting principles described in Exhibit B hereto, or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation, and (2) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within such period, then the City shall provide (1) unaudited financial statements for such fiscal year within such six month period, and (2) audited financial statements for the applicable fiscal year to the MSRB through EMMA when and if the audit report on such statements become available.

If the City changes its fiscal year, it will notify the MSRB through EMMA of the date of the new fiscal year end prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this paragraph (b).

The financial information and operating data to be provided pursuant to this paragraph (b) may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document, if it is available from the MSRB) that theretofore has been provided to the MSRB through EMMA or filed with the SEC.

(c) Event Notices.

(i) The City shall notify the MSRB through EMMA in an electronic format as prescribed by the MSRB, in a timely manner (but not in excess of ten business days after the occurrence of the event) of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws:

1. Non-payment related defaults;
2. Modifications to rights of holders;
3. Redemption calls;
4. Release, substitution, or sale of property securing repayment of the Bonds;
5. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, 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; and
6. Appointment of a successor or additional trustee or the change of name of a trustee.

(ii) The City shall notify the MSRB through EMMA in an electronic format as prescribed by the MSRB, in a timely manner (but not in excess of ten business days after the occurrence of the event) of any of the following events with respect to the Bonds, without regard to whether such event is considered material within the meaning of the federal securities laws:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds;

6. Tender offers;
7. Defeasances;
8. Rating changes; and
9. Bankruptcy, insolvency, receivership or similar event of an obligated person.

(iii) The City shall notify the MSRB through EMMA, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with subsection (b) of this Section by the time required by such subsection.

(d) Limitations, Disclaimers, and Amendments. The City shall be obligated to observe and perform the covenants specified in this Section for so long as, but only for so long as, the City remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the City in any event will give notice of any deposit made in accordance with Section 11 of this Ordinance that causes Bonds no longer to be outstanding.

The provisions of this Section are for the sole benefit of the holders and beneficial owners of the Bonds, and nothing in this Section, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The City undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the City's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Section or otherwise, except as expressly provided herein. The City does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE CITY BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE CITY, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

No default by the City in observing or performing its obligations under this Section shall comprise a breach of or default under this Ordinance for purposes of any other provision of this Ordinance.

Nothing in this Section is intended or shall act to disclaim, waive, or otherwise limit the duties of the City under federal and state securities laws.

The provisions of this Section may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions of this Section, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such

offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Ordinance that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the holders and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the City so amends the provisions of this Section, it shall include with any amended financial information or operating data next provided in accordance with paragraph (b) of this Section an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information or operating data so provided.

Section 26. ISSUANCE OF ADDITIONAL BONDS. (a) The City shall have the right and power at any time and from time to time and in one or more series or issues, to authorize, issue and deliver additional parity revenue bonds or other obligations (herein called "Additional Bonds"), in accordance with law, in any amounts, for purposes of extending, improving or repairing the System or for the purpose of refunding of any Bonds Similarly Secured, Subordinate Lien Obligations or other obligations of the City incurred in connection with the ownership or operation of the System. Such Additional Bonds, if and when authorized, issued and delivered in accordance with this Ordinance, shall be secured by and made payable equally and ratably on a parity with all other Bonds Similarly Secured, from the lien on and pledge of the Pledged Revenues herein granted.

(b) The Interest and Sinking Fund established by this Ordinance shall secure and be used to pay all Bonds Similarly Secured. However, each ordinance under which Additional Bonds are issued shall provide and require that, in addition to the amounts required by the provisions of this Ordinance and the provisions of any other ordinance or ordinances authorizing Additional Bonds to be deposited to the credit of the Interest and Sinking Fund, the City shall deposit to the credit of the Interest and Sinking Fund monthly, on or before the 30th day of each month in approximately equal monthly payments such amounts as are required for the payment of all principal of and interest on said Additional Bonds then being issued, as the same come due.

(c) The City may create and establish a reserve fund pursuant to the provisions of any ordinance authorizing the issuance of Additional Bonds for the purpose of securing that particular issue or series of Additional Bonds or any specific group of issues or series of Additional Bonds and the amounts once deposited or credited to said reserve funds shall no longer constitute Net Revenues and shall be held solely for the benefit of the Holders of the particular Additional Bonds for which such reserve fund was established. Each such reserve fund shall be designated in such manner as is necessary to identify the Additional Bonds it secures and to distinguish such reserve fund from the Reserve Fund and the reserve funds created for the benefit of other Additional Bonds.

Section 27. FURTHER REQUIREMENTS FOR ADDITIONAL BONDS. Additional Bonds shall be issued only in accordance with this Ordinance, but notwithstanding any provisions of this Ordinance to the contrary, no installment, Series or issue of Additional Bonds shall be issued or delivered unless:

(a) The Mayor of the Issuer and the City Secretary of the City sign a written certificate to the effect that the City is not in default as to any covenant, condition or obligation in connection with all outstanding

Bonds Similarly Secured, and the ordinances authorizing same, and that the Interest and Sinking Fund and the Reserve Fund each contains the amount then required to be therein.

(b) An independent certified public accountant, or independent firm of certified public accountants, acting by and through a certified public accountant, signs a written certificate to the effect that, in his or it opinion, during either the next preceding fiscal year, or any twelve consecutive calendar month period out of the 18-month period immediately preceding the month in which the ordinance authorizing such issuance of the then proposed Additional Bonds is passed, the Net Revenues were at least 1.25 times an amount equal to the average annual principal and interest requirements and 1.10 times the maximum annual principal and interest requirements of all Bonds Similarly Secured which are outstanding after the delivery of the proposed Additional Bonds. It is specifically provided, however, that in calculating the amount of Net Revenues for the purposes of this subsection (b) if there has been any increase in the rates or charges for any services of the System which is then in effect, but which is then in effect during all or any part of the entire period for which the Net Revenues are being calculated (hereinafter referred to as the "entire period") then the certified public accountant, or in lieu of the certified accountant a firm of consulting engineers, shall determine and certify the amount of Net Revenues as being the total of (i) the actual Net Revenues for the entire period, plus (ii) a sum equal to the aggregate amount by which the actual billings to customers of the System during the entire period would have been increased if such increased rates or charges had been in effect during the entire period.

At such time that all of the Series 2005 Bonds, Series 2006 Bonds, Series 2009 Bonds and Series 2012 Bonds are either defeased or no longer outstanding, Sub-section 27(b) shall be replaced in its entirety by the following italicized language:

(b) the Finance Director of the City signs a written certificate to the effect that, in his or her opinion, during either the next preceding fiscal year, or any twelve consecutive calendar month period out of the 18-month period immediately preceding the month in which the ordinance authorizing such issuance of the then proposed Additional Bonds is passed, the Net Revenues were at least 1.25 times an amount equal to the average annual principal and interest requirements and 1.10 times the maximum annual principal and interest requirements of all Bonds Similarly Secured which are outstanding after the delivery of the proposed Additional Bonds. It is specifically provided, however, that in calculating the amount of Net Revenues for the purposes of this subsection (b) if there has been any increase in the rates or charges for any services of the System which is then in effect, but which is then in effect during all or any part of the entire period for which the Net Revenues are being calculated (hereinafter referred to as the "entire period") then the certified public accountant, or in lieu of the certified accountant a firm of consulting engineers, shall determine and certify the amount of Net Revenues as being the total of (i) the actual Net Revenues for the entire period, plus (ii) a sum equal to the aggregate amount by which the actual billings to customers of the System during the entire period would have been increased if such increased rates or charges had been in effect during the entire period.

(c) Provision shall be made in the ordinance authorizing their issuance for increasing the Reserve Fund to the Required Reserve Amount as required by Section 14 hereof with proceeds of the Additional Bonds, a surety bond, or other available source or combination of sources including Net Revenues, or any combination.

(d) All calculations of average annual principal and interest requirements of any bonds made in connection with the issuance of any then proposed Additional Bonds shall be made as of the date of such Additional Bonds; and also in making calculations for such purpose, and for any other purpose under this Ordinance, principal amounts of any Bonds which must be redeemed prior to maturity pursuant to any

applicable mandatory redemption requirements shall be deemed to be maturing amounts of principal of such Bonds.

Section 28. **ISSUANCE OF SUBORDINATE LIEN OBLIGATIONS.** The City hereby reserves the right to issue, at any time, obligations including, but not limited to, Subordinate Lien Obligations, payable from and equally and ratably secured, in whole or in part, by a lien on and pledge of the Net Revenues, subordinate and inferior in rank and dignity to the lien on and pledge of such Net Revenues securing the payment of the Bonds Similarly Secured, as may be authorized by the laws of the State of Texas.

Section 29. **ISSUANCE OF SPECIAL PROJECT OBLIGATIONS.** Nothing in this Ordinance shall be construed to deny the City the right and it shall retain, and hereby reserves unto itself, the right to issue Special Project obligations secured by liens on and pledges of revenues and proceeds derived from Special Projects.

Section 30. **LIMITED OBLIGATIONS OF THE CITY.** The Bonds Similarly Secured are limited, special obligations of the City payable from and equally and ratably secured solely by a first lien on and pledge of the Pledged Revenues, and the Holders thereof shall never have the right to demand payment of the principal or interest on the Bonds Similarly Secured from any funds raised or to be raised through taxation by the City.

Section 31. **SECURITY FOR FUNDS.** All money on deposit in the Funds for which this Ordinance makes provision (except any portion thereof as may be at any time properly invested as provided herein) shall be secured in the manner and to the fullest extent required by the laws of Texas for the security of public funds, and money on deposit in such Funds shall be used only for the purposes permitted by this Ordinance.

Section 32. **REMEDIES IN EVENT OF DEFAULT; SECURITY INTEREST.** In addition to all the rights and remedies provided by the laws of the State of Texas, it is specifically covenanted and agreed particularly that in the event the City (i) defaults in the payment of the principal, premium, if any, or interest on the Bonds, (ii) defaults in the deposits and credits required to be made to the Interest and Sinking Fund or Reserve Fund, or (iii) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in this Ordinance, the following remedies shall be available:

(a) the Holders of any of the Bonds shall be entitled to seek a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the governing body of the City and other officers of the City to observe and perform any covenant, condition or obligation prescribed in this Ordinance.

(b) no delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. The specific remedy herein provided shall be cumulative of all other existing remedies, and the specification of such remedy shall not be deemed to be exclusive. Any provision of the Bonds or this Ordinance that restricts or limits the Texas Water Development Board's full exercise of its remedies shall be of no force and effect.

(c) Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of Pledged Revenues granted by the Issuer under Section 9 of this Ordinance, and is therefore valid, effective, and perfected. If State law is amended at any time while the Bonds are outstanding and unpaid such that the pledge of the Pledged Revenues granted by the Issuer under this Ordinance is to be subject to the filing

requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the registered owners of the Bonds the perfection of the security interest in said pledge, the Issuer agrees to take such measures as it determines are reasonable and necessary under State law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code, and enable a filing to perfect the security interest in said pledge to occur.

Section 33. DEFEASANCE OF BONDS. (a) Defeased Bonds. Any Bond and the interest thereon shall be deemed to be paid, retired and no longer Outstanding (a "Defeased Bond"), except to the extent provided in subsection (d) of this Section, when payment of the principal of such Bond, plus interest thereon to the due date (whether such due date be by reason of maturity or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar (or another entity permitted by Section 1207.061, Texas Government Code, as amended, or other applicable law, which entity, together with the Paying Agent/Registrar, are referred to collectively in this Section as the "Defeasance Agent"), in accordance with the requirements of Chapter 1207, Texas Government Code, as amended, or other applicable law (which may include the use of an escrow agreement or other similar instrument - the "Future Escrow Agreement"): (1) lawful money of the United States of America sufficient to make such payment or (2) "Defeasance Securities" (as defined below) that mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment, and when proper arrangements have been made by the Issuer with the Defeasance Agent for the payment of its services until all Defeased Bonds shall have become due and payable. At such time as a Bond shall be deemed to be a Defeased Bond hereunder, as aforesaid, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the lien on and pledge of Net Revenues as provided in this Ordinance, and such principal and interest shall be payable solely from such money or Defeasance Securities. Notwithstanding any other provision of this Ordinance to the contrary, it is hereby provided that any determination not to redeem Defeased Bonds that is made in conjunction with the payment arrangements specified in subsection (a)(i) or (ii) of this Section shall not be irrevocable, provided that: (i) in the proceedings providing for such payment arrangements, the Issuer expressly reserves the right to call the Defeased Bonds for redemption; (2) gives notice of the reservation of that right to the owners of the Defeased Bonds immediately following the making of the payment arrangements; and (3) directs that notice of the reservation be included in any redemption notices that it authorizes.

(b) Defeasance Securities. The term "Defeasance Securities" means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the Issuer adopts or approves the proceedings authorizing the financial arrangements are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

(c) Investment in Defeasance Securities. Any moneys so deposited with the Defeasance Agent may at the written direction of the Issuer be invested in Defeasance Securities, maturing in the amounts and times as hereinbefore set forth, and all income from such Defeasance Securities received by the Defeasance Agent that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be turned over to the Issuer, or deposited as directed in writing by the Issuer. Any account or Future Escrow Agreement pursuant to which the money and/or Defeasance Securities are held for

the payment of Defeased Bonds may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of the requirements specified in subsections (a)(i) or (ii) of this Section. All income from such Defeasance Securities received by the Defeasance Agent which is not required for the payment of the Defeased Bonds, with respect to which such money has been so deposited, shall be remitted to the Issuer or deposited as directed in writing by the Issuer.

(d) Paving Agent/Registrar Services. Until all Defeased Bonds shall have become due and payable, the Paying Agent/Registrar shall perform the services of Paying Agent/Registrar for such Defeased Bonds the same as if they had not been defeased, and the Issuer shall make proper arrangements to provide and pay for such services as required by this Ordinance.

(e) Selection of Bonds for Defeasance. In the event that the Issuer elects to defease less than all of the principal amount of Bonds of a maturity, the Paying Agent/Registrar shall select, or cause to be selected, such amount of Bonds by such random method as it deems fair and appropriate.

Section 34. **DAMAGED, MUTILATED, LOST, STOLEN, OR DESTROYED BONDS.** (a) Replacement Bonds. In the event any outstanding Bond is damaged, mutilated, lost, stolen or destroyed, the Paying Agent/Registrar shall cause to be printed, executed and delivered, a new bond of the same principal amount, maturity and interest rate, as the damaged, mutilated, lost, stolen or destroyed Bond, in replacement for such Bond in the manner hereinafter provided.

(b) Application for Replacement Bonds. Application for replacement of damaged, mutilated, lost, stolen or destroyed Bonds shall be made by the registered owner thereof to the Paying Agent/Registrar. In every case of loss, theft or destruction of a Bond, the registered owner applying for a replacement bond shall furnish to the City and to the Paying Agent/Registrar such security or indemnity as may be required by them to save each of them harmless from any loss or damage with respect thereto. Also, in every case of loss, theft or destruction of a Bond, the registered owner shall furnish to the City and to the Paying Agent/Registrar evidence to their satisfaction of the loss, theft or destruction of such Bond, as the case may be. In every case of damage or mutilation of a Bond, the registered owner shall surrender to the Paying Agent/Registrar for cancellation the Bond so damaged or mutilated.

(c) No Default Occurred Notwithstanding the foregoing provisions of this Section, in the event any such Bond shall have matured, and no default has occurred which is then continuing in the payment of the principal of, redemption premium, if any, or interest on the Bond, the City may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated Bond) instead of issuing a replacement Bond, provided security or indemnity is furnished as above provided in this Section.

(d) Charge for Issuance Replacement Bonds. Prior to the issuance of any replacement bond, the Paying Agent/Registrar shall charge the registered owner of such Bond with all legal, printing and other expenses in connection therewith. Every replacement bond issued pursuant to the provisions of this Section by virtue of the fact that any Bond is lost, stolen or destroyed shall constitute a contractual obligation of the City whether or not the lost, stolen or destroyed Bond shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Ordinance equally and proportionately with any and all other Bonds duly issued under this Ordinance.

(e) Authority for Issuance of Replacement Bonds. In accordance with Chapter 1201, Texas Government Code, this Section of this Ordinance shall constitute authority for the issuance of any such replacement bond without necessity of further action by the governing body of the City or any other body or person, and the duty of the replacement of such bonds is hereby authorized and imposed upon the Paying Agent/Registrar, and the Paying Agent/Registrar shall authenticate and deliver such Bonds in the form and

manner and with the effect, as provided in Section 6(a) of this Ordinance for Bonds issued in exchange for other Bonds.

Section 35. AMENDMENT OF ORDINANCE. (a) The holders of the Bonds Similarly Secured aggregating a majority in principal amount of the aggregate principal amount of then outstanding Bonds Similarly Secured shall have the right from time to time to approve any amendment to this Ordinance which may be deemed necessary or desirable by the City, provided, however, that without the consent of the holders of all of the affected Bonds Similarly Secured at the time outstanding, nothing herein contained shall permit or be construed to permit the amendment of the terms and conditions in this Ordinance or in the Bonds Similarly Secured so as to:

- (1) Make any change in the maturity of the outstanding Bonds Similarly Secured;
- (2) Reduce the rate of interest borne by any of the outstanding Bonds Similarly Secured;
- (3) Reduce the amount of the principal payable on the outstanding Bonds Similarly Secured;
- (4) Modify the terms of payment of principal of or interest on the outstanding Bonds Similarly Secured or impose any conditions with respect to such payment;
- (5) Affect the rights of the holders of less than all of the Bonds Similarly Secured then outstanding;
- (6) Change the minimum percentage of the principal amount of Bonds Similarly Secured necessary for consent to such amendment.

(b) If at any time the City shall desire to amend this Ordinance under this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal of general circulation in The City of New York, New York or in the State of Texas, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file for inspection by all registered owners of Bonds Similarly Secured at the designated trust office of the registrar for the Bonds Similarly Secured. Such publication is not required, however, if notice in writing is given to each registered owner of the Bonds Similarly Secured.

(c) Whenever at any time not less than thirty days, and within one year, from the date of the first publication of said notice or other service of written notice the City shall receive an instrument or instruments executed by the holders of at least a majority in aggregate principal amount of all Bonds Similarly Secured then outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file with the Paying Agent/Registrar, the City Commission may pass the amendatory ordinance in substantially the same form.

(d) Upon the passage of any amendatory ordinance pursuant to the provisions of this Section, this Ordinance shall be deemed to be amended in accordance with such amendatory ordinance, and the respective rights, duties and obligations under this Ordinance of the City and all the holders of then outstanding Bonds Similarly Secured shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such amendments.

(e) Any consent given by the registered owner of a Bonds Similarly Secured pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication of the notice provided for in this Section, and shall be conclusive and binding upon all future holders of the same Bonds Similarly Secured during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the holder who gave such consent, or by a successor in title, by filing notice thereof with the Paying Agent and the City, but such revocation shall not be effective if the registered owners of at least a majority in aggregate principal amount of the then outstanding Bonds

Similarly Secured as in this Section defined have, prior to the attempted revocation, consented to and approve the amendment.

(f) For the purpose of this Section, the fact of the holding of Bonds Similarly Secured issued in registered form without coupons and the amounts and numbers of such Bonds Similarly Secured and the date of their holding same shall be proved by the Registration Books of the Paying Agent/Registrar. For purposes of this Section, the holder of a Parity Obligation in such registered form shall be the owner thereof as shown on such Registration Books. The City may conclusively assume that such ownership continues until written notice to the contrary is served upon the City.

(g) The foregoing provisions of this Section notwithstanding, including subsection (b), the City by action of the City Commission may amend this Ordinance for anyone or more of the following purposes:

(1) To add to the covenants and agreements of the City in this Ordinance contained, other covenants and agreements thereafter to be observed, grant additional rights or remedies to bondholders or to surrender, restrict or limit any right or power herein reserved to or conferred upon the City;

(2) To make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained in this Ordinance, or in regard to clarifying matters or questions arising under this Ordinance, as are necessary or desirable and not contrary to or inconsistent with this Ordinance and which shall not adversely affect the interests of the holders of the Bonds Similarly Secured;

(3) To make any changes or amendments requested by any Rating Agency, as a condition to the issuance or maintenance of a rating, which changes or amendments do not, in the judgment of the City, materially adversely affect the interests of the owners of the outstanding Bonds Similarly Secured;

(4) To make such changes, modifications or amendments as may be necessary or desirable, which shall not adversely affect the interests of the owners of the outstanding Bonds Similarly Secured, in order, to the extent permitted by law, to facilitate the economic and practical utilization of credit agreements with respect to the Bonds Similarly Secured including, without limitation, supplementing the definition of "Annual Debt Service Requirements" to address the amortization of payments due and owing under a credit agreement;

(5) To modify any of the provisions of this Ordinance in any other respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds Similarly Secured outstanding at the date of the adoption of such modification shall cease to be outstanding, and (ii) such modification shall be specifically referred to in the text of all Bonds Similarly Secured issued after the date of the adoption of such modification.

Notice of any such amendment may be published or given by the City in the manner described in subsection (b) of this Section; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

Section 36. CUSTODY, APPROVAL AND REGISTRATION OF BONDS; BOND COUNSEL'S OPINION, AND CUSIP NUMBERS. (a) Upon registration of the Bonds said Comptroller of Public Accounts (or a deputy designated in writing to act for said Comptroller) shall manually sign the Comptroller's Registration Certificate attached to the initial Bond, and the seal of said Comptroller shall be impressed, or placed in facsimile, on such Certificate. The approving legal opinion of the City's Bond Counsel

(with an appropriate certificate pertaining thereto executed by facsimile signature of the City Secretary of the City) and the assigned CUSIP numbers may, at the option of the City, be printed on or attached to the Bonds issued and delivered under this Ordinance, but such additions or attachments shall not have any legal effect, and shall be solely for the convenience and information of the registered owners of the Bonds.

Section 37. UNAVAILABILITY OF AUTHORIZED PUBLICATION. If, because of the temporary or permanent suspension of any newspaper, journal or other publication, or, for any reason, publication of notice cannot be made meeting any requirements herein established, any notice required to be published by the provisions of this Ordinance shall be given in such other manner and at such time or times as in the judgment of the City shall most effectively approximate such required publication and the giving of such notice in such manner shall for all purposes of this Ordinance be deemed to be in compliance with the requirements for publication thereof.

Section 38. UTILITY BOARD. (a) Pursuant to the authority contained in Chapter 1502, as amended, Texas Government code, except as otherwise specifically provided in this Ordinance, the complete management and control of the System, during such time as the Bonds Similarly Secured outstanding and unpaid, shall be vested in a Board consisting of five citizens of the United States of America, constituted as provided in this Section, to be known as the Utilities Board of McAllen. Said Board is referred to in this Ordinance as the Board or Board of Trustees. The Mayor of the Issuer or, as permitted by law, his designee shall, ex-officio, be one of the full voting members of the Board, and the remaining members of the Board shall consist of the following and serve terms as follows:

Charles Amos, Chairman	Place A	Term expires 20__
Tony Aguirre, Jr., Vice Chairman	Place B	Term expires 2019
Albert Cardenas, Trustee	Place C	Term expires 2019
Ernest R. Williams, Trustee	Place D	Term expires 20__

Jim Darling, Ex-Officio Member

The term of office of each member elected to the Board, after the initial terms of the members as provided above, shall be four years, except as otherwise may be provided by law. At the regular Issuer election held in May of odd numbered years, there shall be elected by the qualified electors of the Issuer successors for the members of the Board whose terms expires in such year. If for any reason one or more vacancies in memberships of the Board shall occur other than by expiration of term of office, a successor for the member whose membership so becomes vacant shall be selected by vote of the majority of the remaining members of the Board, and the successor so appointed shall hold office until the next May election of the odd-numbered years after his appointment.

If at any time in the future the Legislature shall adopt a law authorizing an increase in the number of members of the Board operating municipally-owned utilities, the City Commission of the Issuer may in its discretion provide for increasing the membership of the Board in such manner as it may provide.

(c) Removal of residence from the Issuer by any appointed member of the Board shall vacate his office as a member of the Board, and any member of the Board, other than one exofficio member, who shall be continuously absent from all meetings held by the Board for a period of four consecutive months shall, unless he shall have been granted leave of absence by the majority vote of the remaining members of the Board, constitute an automatic resignation as a member of the Board. If any member shall announce their candidacy, or shall in fact become a candidate for an election of any office of profit or trust other than such Board member's office when the unexpired term of such office then held shall exceed one-year, such announcement or such candidacy shall constitute an automatic resignation as member of the Board. Any members of the Board other than the ex-officio member may, by majority vote of the remaining members of

the City Commission of the Issuer, be removed from office after public hearing, if requested, but only for adequate cause.

(d) Except as otherwise specifically provided in this Ordinance, the Board shall have absolute and complete authority and power with reference to the control, management and operation of the System and the expenditure and application of the revenues of the System subject to the provisions contained in this Ordinance, all of which shall be binding upon and shall govern the Board. In connection with the management and operation of the System and the expenditure and application of the revenues therefrom, the Board shall be vested with all of the powers of the Issuer with respect thereto, including all powers necessary or appropriate for the performance of all the covenants, undertakings and agreements of the Issuer contained in this Ordinance, and with the exception of fixing rates and charges for service rendered by the System (which powers are reserved by the City Commission of the Issuer) shall have full power and authority to make rules and regulations governing the furnishing of service to patrons of the System and for the payment of the same, and for the refusal of such services upon failure to pay therefor to the extent authorized by law and by this Ordinance.

(e) The Board shall enforce the rates, fees and charges for services rendered and to be rendered by the System as previously fixed by the City Commission of the Issuer, with due consideration being accorded to the terms, covenants and conditions contained in this Ordinance, and in the event operating experience indicates a necessity for the adjustment, either by an increase or a reduction of such rates, fees and charges, then the Board shall submit to the City Commission of the Issuer a full report of the basis upon which such proposed adjustment is predicated, accompanied by a formal request by the Board for approval and adoption of the rates, fees and charges recommended by the Board. If the City Commission of the Issuer approves the adjustment thus recommended by the Board it shall pass an appropriate ordinance placing such adjusted rates, fees and charges in effect, provided however that the rates, fees and charges for services rendered by the System shall never be reduced in such amounts as will impair the obligation of any of the covenants contained in this Ordinance.

(f) The Board annually shall elect one of its members as Chairman and one as Vice Chairman, and shall appoint a Secretary and Treasurer, or a Secretary-Treasurer, who may, but need not be, a member of members of the Board. If a member of the Board is not appointed as Secretary or Treasurer, or Secretary-Treasurer, then an employee or employees of the Board of Trustees may be appointed as Secretary or Treasurer or Secretary-Treasurer. The Board may follow and adopt such rules for the orderly handling of its affairs as it may see fit and may manage and conduct the affairs of the System with the same freedom and in the same manner ordinarily employed by the board of directors of private corporations operating properties of a similar nature, provided that said Board shall have at least one meeting monthly. Final action on matters coming before the Board shall be taken only in meetings open to the public.

(g) The Board shall appoint and employ all officers and employees which it may deem desirable, including a general manager of the System and an attorney or attorneys, provided the City Attorney of the Issuer shall be the chief legal advisor of the Board. To the extent practicable, the Board shall utilize the personnel and facilities of the Issuer, to reduce the expenses of maintaining and operating the System. All such services shall be rendered by the Issuer on an actual cost basis.

(h) The Board shall obtain and keep continually in force an employees fidelity and indemnity bond of so-called "blanket" type written by a solvent and recognized indemnity company and offering losses to the amount of not less than \$25,000.

(i) The members of the Board, including the ex-officio member shall receive annual compensation in the amount of \$600.

Section 39. **NO RECOURSE AGAINST CITY OFFICIALS.** No recourse shall be had for the payment of principal of or interest on any Bonds Similarly Secured or for any claim based thereon or on this Ordinance against any official of the City or any person executing any Bonds Similarly Secured.

Section 40. **FURTHER ACTIONS.** The Authorized Representatives of the City are hereby authorized, empowered and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge and deliver in the name and under the corporate seal and on behalf of the City all such instruments, whether or not herein mentioned, as may be necessary or desirable in order to carry out the terms and provisions of this Ordinance, the Bonds, the initial sale and delivery of the Bonds and the Paying Agent/Registrar Agreement. In addition, prior to the initial delivery of the Bonds, the Authorized Representatives and Bond Counsel are hereby authorized and directed to approve any technical changes or corrections to this Ordinance or to any of the instruments authorized and approved by this Ordinance necessary in order to correct any ambiguity or mistake or properly or more completely document the transactions contemplated and approved by this Ordinance or obtain the approval of the Bonds by the Texas Attorney General's office.

In case any officer of the City whose signature shall appear on any Bond shall cease to be such officer before the delivery of such Bond, such signature shall nevertheless be valid and sufficient for all purposes the same as if such officer had remained in office until such delivery.

Section 41. **INTERPRETATIONS.** All terms defined herein and all pronouns used in this Ordinance shall be deemed to apply equally to singular and plural and to all genders. The titles and headings of the articles and sections of this Ordinance have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. This Ordinance and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of the Bonds and the validity of the lien on and pledge of the Pledged Revenues to secure the payment of the Bonds.

Section 42. **INCONSISTENT PROVISIONS.** All ordinances, orders or resolutions, or parts thereof, which are in conflict or inconsistent with any provision of this Ordinance are hereby repealed to the extent of such conflict and the provisions of this Ordinance shall be and remain controlling as to the matters contained herein.

Section 43. **INTERESTED PARTIES.** Nothing in this Ordinance expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the City, the Bond Issuer and the registered owners of the Bonds, any right, remedy or claim under or by reason of this Ordinance or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Ordinance contained by and on behalf of the City shall be for the sole and exclusive benefit of the City, the Bond Insurer and the registered owners of the Bonds.

Section 44. **INCORPORATION OF RECITALS.** The City hereby finds that the statements set forth in the recitals of this Ordinance are true and correct, and the City hereby incorporates such recitals as a part of this Ordinance.

Section 45. **SEVERABILITY.** If any provision of this Ordinance or the application thereof to any circumstance shall be held to be invalid, the remainder of this Ordinance and the application thereof to other circumstances shall nevertheless be valid, and this governing body hereby declares that this Ordinance would have been enacted without such invalid provision.

Section 46. SALE OF BONDS. The Bonds are hereby sold and shall be delivered to the TEXAS WATER DEVELOPMENT BOARD at a price equal to the par amount thereof, less an origination fee payable to the Texas Water Development Board of ____% calculated pursuant to the Texas Water Development Board rules.

Section 47. APPROVAL OF BONDS. The Bonds have been purchased by the Texas Water Development Board pursuant to its Resolution No. _____ adopted on _____, which provides that the Bonds are being purchased from the Drinking Water State Revolving Fund and that in accordance thereto the Executive Administrator of the Board will purchase the Bonds at the price set forth in Section 46, with all of the proceeds to be deposited in the Escrow Fund created in the Escrow Agreement herein below approved for future distribution into the Construction Fund as set forth therein.

Section 48. APPROVAL OF ESCROW AGREEMENT. The Mayor of the Issuer is hereby authorized and directed to execute and deliver and the City Secretary of the Issuer is hereby authorized and directed to attest an Escrow Agreement in substantially the form attached hereto as Exhibit C. The moneys in the Escrow Fund upon authorization from the Development Fund Manager of the Texas Water Development Board shall be deposited into the Construction Fund as established herein.

Section 49. CONSTRUCTION FUND. There shall be established a Construction Fund (which shall be separate from all other accounts and funds of the Issuer) with the Issuer's depository bank and upon release of funds from the Escrow Fund such funds shall be deposited into this Construction Fund. The cost of issuance of the Bonds, being legal, fiscal and engineering fees, may be paid from this Fund. The cost of the construction of the Waterworks System improvements will be paid from this Construction Fund upon direction of the Issuer. All interest and profits from investments made with moneys in the Construction Fund shall remain on deposit in the Construction Fund as a part thereof. After completion of the payment of all costs of the Waterworks and Sewer System improvements, any residue remaining in the Construction Fund shall be applied in accordance with Section 53 hereof.

Section 50. FINAL ACCOUNTING. The Issuer shall render a final accounting to the Texas Water Development Board in reference to the total cost incurred by the Issuer for Sewer System improvements together with a copy of "as built" plans of the project upon completion.

Section 51. UNAUTHORIZED EXPENDITURES. If the Executive Administrator of the Texas Water Development Board disapproves construction of any portion of the project as not being in accordance with the plans and specifications, the Issuer shall, immediately after filing the final accounting, return to the Texas Water Development Board the amount of such cost as determined by the Executive Administrator relating to the parts of the project not constructed in accordance with the plans and specifications, to the nearest multiple of the denomination of the Bonds, whereupon the Texas Water Development Board shall cancel and return to the Issuer a like amount of said Bonds held by the Texas Water Development Board. The Bonds to be canceled and returned shall be chosen in inverse order of maturity. The remainder of any such excess, in an amount not to exceed \$5,000, shall be deposited to the Bonds Fund.

Section 52. INVESTMENTS AND SECURITY. That money in any Fund established pursuant to this Ordinance may, at the option of the Issuer, be invested in eligible investments described in the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, consistent with the investment policy approved by the City Commission. All investments shall be made in such manner as will, in the opinion of the Issuer, permit the money required to be expended from any Fund to be available at the proper time or times as expected to be needed. All funds mentioned in this Ordinance shall be secured in the manner and

to the fullest extent permitted or required by law for the security of public funds, including the Public Funds Collateral Act (Chapter 2257, Government Code), and such funds shall be used only for the purposes and in the manner permitted or required by this Ordinance.

Section 53. SURPLUS PROCEEDS. That the Issuer shall use any surplus proceeds from the Bonds remaining after completion of the Sewer System improvements, to (1) to redeem, in inverse annual order, the Bonds owned by the Texas Water Development Board; (2) deposit into the Interest and Sinking Fund for the payment of interest or principal on the Bonds owned by the Texas Water Development Board; or (3) pay for eligible project costs as authorized by the Executive Administrator.

Section 54. COMPLIANCE WITH THE TEXAS WATER DEVELOPMENT BOARD'S RULES AND REGULATIONS. That the Issuer covenants to comply with the rules and regulations of the Texas Water Development Board, as long as the Bonds, or any of them, are owned by the Texas Water Development Board:

(a) Annual Audit Reporting. The Issuer shall provide to the Development Fund Manager of the Texas Water Development Board, without the necessity of a written request therefor, a copy of the Issuer's annual audit report, to be submitted without charge, within 120 days of the close of each Issuer fiscal year, prepared in accordance with generally accepted auditing standards by a certified public accountant or licensed public accountant and in compliance with 31 TAC 363.42.

(b) Insurance. The Issuer agrees to maintain casualty and other insurance of the System of a kind and in an amount customarily carried by municipal corporations owning and operating similar properties and an amount sufficient to protect the interests of the Texas Water Development Board in the Project

(c) Water Conservation Program. The Issuer agrees and covenants that it will implement an approved water conservation program in accordance with 31 TAC 363.15.

(d) Records and Accounts. The Issuer agrees and covenants that it will maintain current, accurate and complete records and accounts regarding the System in accordance with 31 TAC 375.71(a)(2)(G).

(e) Environmental Determinations. The Issuer agrees and covenants that it will comply with any special conditions of the Executive Administrator's environmental determination in accordance with 31 TAC 375.71(a)(8).

(f) Prohibition on Use of Proceeds. The Issuer covenants and agrees that none of the proceeds of the Bonds will be expended on costs incurred relating to the sampling, testing, removing or disposing of potentially contaminated soils and/or media at the project site.

(g) Indemnification. The Issuer further agrees, to the extent permitted by law, to indemnify, hold harmless and protect the Texas Was Development Board from any and all claims or causes of action arising from the sampling, analysis, transport, storage, treatment, removal and off-site disposition of any contaminated sewage sludge, contaminated sediments and/or contaminated media that may be generated by the Issuer, its contractors, consultants, agents, officials and employees as a result of activities relating to the Project.”

(h) Disadvantaged Business Enterprises Program. The Issuer covenants to provide documentation to the Texas Water Development Board that it has met the procurement requirements under the Disadvantaged Business Enterprises Program prior to release of funds for applicable goods or professional services.

Section 55. COVENANTS AND COMPLIANCE WITH THE TEXAS WATER DEVELOPMENT RESOLUTION APPROVING PURCHASE OF BONDS. The Texas Water Development Board, in Resolution No. _____ adopted on _____, requires that the City make the following covenants in this Ordinance:

(a) The City shall submit outlay reports with sufficient documentation on costs (e.g.; invoices, receipts) on a quarterly or monthly basis in accordance with the Texas Water Development Board's outlay report guidelines.

(b) All laborers and mechanics employed by contractors and subcontractors for projects shall be paid wages at rates not less than those prevailing on projects of a similar character in the locality in accordance with the Davis-Bacon Act, and the U.S. Department of Labor's implementing regulations. The City, all contractors, and all subcontractors shall ensure that all project contracts mandate compliance with Davis-Bacon.

(c) The City shall provide the Texas Water Development Board with all information required to be reported in accordance with the Federal Funding Accountability and Transparency Act of 2006, Pub. L. 109-282. The City shall obtain a Data Universal Numbering System ("DUNS") Number and shall register with System for Award Management ("SAM"), and maintain current registration at all times during which the Bonds are outstanding.

(d) All loan proceeds will be timely and expeditiously used, as required by federal statute and EPA regulations, and the City will adhere to an Executive Administrator-approved project schedule, which shall not be altered except for good cause shown and only with the written approval of the Executive Administrator.

(e) Prior to any action by the City to convey the Bonds to another entity, the conveyance and assumption of the Bonds must be approved by the Texas Water Development Board. The City must notify the Executive Administrator prior to taking any actions to alter its legal status in any manner, such as by conversion to a conversation and reclamation district or a sale-transfer-merger with another retail public utility.

(f) The City will abide by all applicable construction contract requirements related to the use of iron and steel products produced in the United States, as required by the 2014 Federal Appropriations Act and related State Revolving Fund Policy Guidelines.

Section 56. PUBLIC NOTICE. It is hereby officially found and determined that public notice of the time, place and purpose of said meeting was given, all as required by Chapter 551, Texas Government Code, and that no petition was received from the qualified electors of the Issuer protesting the issuance of the Bonds.

Section 57. ADOPTION OF ORDINANCE. This Ordinance was adopted on one reading to become effective immediately in accordance with Section 1201.028, Texas Government Code.

Section 58. EFFECTIVE DATE. This Ordinance shall become effective after passage by the City Commission.

EXHIBIT A

WRITTEN PROCEDURES RELATING TO CONTINUING COMPLIANCE WITH FEDERAL TAX COVENANTS

A. Arbitrage. With respect to the investment and expenditure of the proceeds of the Bonds, the City's Director of Finance (the "Responsible Person") will:

(i) monitor all amounts deposited into a sinking fund or funds (e.g., the Interest and Sinking Fund), to assure that the maximum amount invested at a yield higher than the yield on the Bonds does not exceed an amount equal to the debt service on the Bonds in the succeeding 12-month period plus a carryover amount equal to one-twelfth of the principal and interest payable on the Bonds for the immediately preceding 12-month period;

(ii) instruct the appropriate person or persons that the construction, renovation or acquisition of the facilities must proceed with due diligence and that binding contracts for the expenditure of at least 5% of the proceeds of the Bonds will be entered into within 6 months of the date of delivery of the Bonds ("Issue Date");

(iii) monitor that at least 85% of the proceeds of the Bonds to be used for the construction, renovation or acquisition of any facilities are expended within [3/5] years of the Issue Date;

(iv) restrict the yield of the investments to the yield on the Bonds after [3/5] years of the Issue Date;

(v) monitor all amounts deposited into a sinking fund or funds, e.g., the Interest and Sinking Fund, to assure that the maximum amount invested at a yield higher than the yield on the Bonds does not exceed an amount equal to the debt service on the Bonds in the succeeding 12 month period plus a carryover amount equal to one-twelfth of the principal and interest payable on the Bonds for the immediately preceding 12-month period;

(vi) assure that the maximum amount of any reserve fund for the Bonds invested at a yield higher than the yield on the Bonds will not exceed the lesser of (1) 10% of the principal amount of the Bonds, (2) 125% of the average annual debt service on the Bonds measured as of the Issue Date, or (3) 100% of the maximum annual debt service on the Bonds as of the Issue Date;

(vii) ensure that no more than 50% of the proceeds of the Bonds are invested in an investment with a guaranteed yield for 4 years or more;

(viii) maintain any official action of the City (such as a reimbursement resolution) stating its intent to reimburse with the proceeds of the Bonds any amount expended prior to the Issue Date for the acquisition, renovation or construction of any Certificate of Obligation financed facilities;

(ix) monitor the actions of any escrow agent (to the extent an escrow is funded with proceeds) to ensure compliance with the applicable provisions of the escrow agreement, including with respect to reinvestment of cash balances;

(x) ensure that the applicable information return (e.g., IRS Form 8038-G, 8038-GC, or any successor forms) is timely filed with the IRS; and

(xi) assure that, unless excepted from rebate and yield restriction under section 148(f) of the Code, excess investment earnings are computed and paid to the U.S. government at such time and in such

manner as directed by the IRS, and at least within 30 days after (A) every 5 years after the Issue Date, and (B) the date the Bonds are retired.

B. Private Business Use. With respect to the use of the facilities financed or refinanced with the proceeds of the Bonds the Responsible Person will:

(i) monitor the date on which the facilities are substantially complete and available to be used for the purpose intended;

(ii) monitor whether, at any time the Bonds are outstanding, any person, other than the City, the employees of the City, the agents of the City or members of the general public has any contractual right (such as a lease, purchase, management or other service agreement) with respect to any portion of the facilities;

(iii) monitor whether, at any time the Bonds are outstanding, any person, other than the City, the employees of the City, the agents of the City or members of the general public has a right to use the output of the facilities (e.g., water, gas, electricity);

(iv) monitor whether, at any time the Bonds are outstanding, any person, other than the City, the employees of the City, the agents of the City or members of the general public has a right to use the facilities to conduct or to direct the conduct of research;

(v) determine whether, at any time the Bonds are outstanding, any person, other than the City, has a naming right for the facilities or any other contractual right granting an intangible benefit;

(vi) determine whether, at any time the Bonds are outstanding, the facilities are sold or otherwise disposed of; and

(vii) take such action as is necessary to remediate any failure to maintain compliance with the covenants contained in the Ordinance related to the public use of the facilities.

C. Record Retention. The Responsible Person will maintain or cause to be maintained all records relating to the investment and expenditure of the proceeds of the Bonds and the use of the facilities financed or refinanced thereby for a period ending six (6) years after the complete extinguishment of the Bonds. If any portion of the Bonds is refunded with the proceeds of another series of tax-exempt obligations, such records shall be maintained until the six (6) years after the refunding obligations are completely extinguished. Such records can be maintained in paper or electronic format.

D. Responsible Person. The Responsible Person shall receive appropriate training regarding the City's accounting system, contract intake system, facilities management and other systems necessary to track the investment and expenditure of the proceeds and the use of the facilities financed or refinanced with the proceeds of the Bonds. The foregoing notwithstanding, the Responsible Person is authorized and instructed to retain such experienced advisors and agents as may be necessary to carry out the purposes of these instructions. If an error is discovered, the Responsible Person will promptly correct any such error within a reasonable amount of time of such discovery and take, or cause to be taken, such appropriate actions, including payment to the United States, if applicable, that is required to maintain the tax-exempt status of the Bonds.

EXHIBIT B

DESCRIPTION OF ANNUAL FINANCIAL INFORMATION

The following information is referred to in Section 25 of this Ordinance.

I. Annual Financial Statements and Operating Data

The financial information and operating data with respect to the Issuer to be provided annually in accordance with such Section includes the quantitative financial and operating data of the type included in Tables numbered 1 through 13 and in Appendix C in the Official Statements for each series of the Previously Issued Bonds.

Accounting Principles

The accounting principles referred to in such Section are the accounting principles described in the notes to the audited financial statements referred to in paragraph 1 above.

EXHIBIT C

ESCROW AGREEMENT

**The Escrow Agreement Has Been Omitted at this Point as it Appears
in Executed Form Elsewhere in this Transcript.**

PRIVATE PLACEMENT MEMORANDUM DRAFT DATED MAY 3, 2018

NEW ISSUE BOOK-ENTRY-ONLY

On the date of initial delivery of the Bonds (defined below), Issuer Bond Counsel (defined on page 2) will render its opinion substantially in the form attached in APPENDIX C - FORM OF OPINION OF BOND COUNSEL.

\$6,900,000
CITY OF McALLEN, TEXAS
TEXAS WATER DEVELOPMENT BOARD
WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2018
(the "Bonds")

Dated: November 1, 2018

Due: February 1, as shown in

Interest accrues from Delivery Date

"Appendix A – MATURITY SCHEDULE"

Interest Date: Interest on the Bonds will be payable on February 1 and August 1 each year, commencing August 1, 2019 (each an "Interest Payment Date"). The Bonds will bear interest at the rates per annum set forth in "APPENDIX A - MATURITY SCHEDULE."

Record Date: The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the fifteenth day of the preceding month.

Date Interest Accrues: The Bonds shall bear interest from the Delivery Date thereof or the most recent Interest Payment Date to which interest has been paid or provided for at the rate set forth, such interest payable semiannually on February 1 and August 1 of each year until the earliest of maturity or prior redemption, commencing on August 1, 2019.

Redemption: The Bonds are subject to redemption prior to maturity as provided herein. See "THE BONDS - Redemption Provisions" herein.

Authorized Denominations: The Bonds are being issued as fully registered bonds in denominations of \$5,000, or any integral multiple thereof.

Paying Agent/Registrar/Registrar: The paying agent ("Paying Agent/Registrar/Registrar") for the Bonds is _____, _____, Texas.

Book-Entry-Only System Upon initial issuance, the ownership of the Bonds will be registered in the registration books of the Issuer kept by the Paying Agent/Registrar, in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") to which principal, redemption premium, if any, and interest payments on the Bonds will be made. The purchasers of the Bonds will not receive physical delivery of bond certificates. Principal of, interest, and premium if any, on the Bonds will be payable at the designated office of the Paying Agent/Registrar in Austin, Texas as the same become due and payable.

Issuer: City of McAllen, Texas

Official Action: Ordinance to be considered on or about September 24, 2018.

Purpose: See "APPENDIX B - OFFICIAL ACTION."

Security for the Bonds: See "APPENDIX B - OFFICIAL ACTION."

Ratings: See "OTHER INFORMATION - Ratings"

Delivery Date: On or about November 13, 2018

See "APPENDIX A - MATURITY SCHEDULE" for Principal Amounts, Maturities, Interest Rates, Prices or Yields, and Initial CUSIP Numbers

CITY OF McALLEN, TEXAS

City Commissioners

James E. Darling	Mayor
Javier Villalobos	Commissioner (District 1)
Joaquin "J.J." Zamora	Commissioner (District 2)
Omar Quintanilla	Commissioner (District 3)
Aida Ramirez	Commissioner (District 4)
John Ingram	Commissioner (District 5)
Veronica Vela Whitacre	Commissioner (District 6)

Public Utility Board Members

Charles Amos	Chairman – Place A
Antonio "Tony" Aguirre	Vice Chairman – Place B
Albert Cardenas	Trustee – Place C
Ernest R. Williams	Trustee – Place D
James E. Darling	Mayor/Ex-Officio Member

Selected Administrative Staff

Roel Rodriguez, P.E.	City Manager
Marco A. Vega, P.E.	MPU General Manager
Susan Lozano	Finance Director
Melba D. Carvajal	Director of Finance for Utilities
Kevin D. Pagan	City Attorney

McCall, Parkhurst & Horton L.L.P., Bond Counsel

Hilltop Securities Inc., Financial Advisor

_____, Paying Agent/Registrar

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**Private Placement Memorandum
relating to

\$6,900,000
CITY OF McALLEN, TEXAS
TEXAS WATER DEVELOPMENT BOARD
WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2018
(the “Bonds”)**

INTRODUCTION

This Private Placement Memorandum, including the cover page and appendices, contains brief descriptions of the Issuer, provides certain information with respect to the issuance by the Issuer, and summaries of certain provisions of the “Bonds” pursuant to the Official Action. Except as otherwise set forth herein, capitalized terms used but not defined in this Private Placement Memorandum have the meanings assigned to them in the Official Action. See “APPENDIX B – “FORM OF OFFICIAL ACTION” attached hereto.

APPENDIX A contains the maturity schedule for the Bonds. APPENDIX B contains the Official Action and a description of the purpose for the proceeds of the Bonds. APPENDIX C contains a copy of the proposed opinion of Bond Counsel with respect to the Bonds. The summaries of the documents contained in the forepart of this Private Placement Memorandum are not complete or definitive, and every statement made in this Private Placement Memorandum concerning any provision of any document is qualified by reference to such document in its entirety.

THE BONDS

General Description

The Bonds are being issued in the aggregate principal amount set forth in APPENDIX A of this Private Placement Memorandum and will mature and be subject to redemption prior to maturity as described therein. The Bonds are being issued as fully registered bonds in denominations of \$5,000, or any integral multiple thereof. The Bonds will be dated as of the stated date of issue and will mature on the dates referenced thereon, and will bear interest at the rates per annum set forth in “APPENDIX A - MATURITY SCHEDULE.”

Interest on the Bonds is payable semiannually on each Interest Payment Date, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Principal of and the redemption price with respect to the Bonds will be payable to the Owners upon presentation and surrender at the principal office of the Paying Agent/Registrar.

Purpose

See “APPENDIX B - FORM OF OFFICIAL ACTION.”

Authority for Issuance

The Bonds are issued pursuant to Chapter 1502, Government Code, as amended, and the Official Action adopted by the Issuer.

Security for the Bonds

See “APPENDIX B - FORM OF OFFICIAL ACTION.”

Redemption Provisions

On February 1, 2029, the City reserves the right, at its option, to redeem the Bonds having stated maturities on and after February 1, 2030, in whole, or in part, and, if in part, the Issuer shall, in inverse order of maturity, select and designate the maturity or maturities and the amount that is to be redeemed, and if less than a whole maturity is to

be called, the Issuer shall direct the Paying Agent/Registrar to call by lot (provided that a portion of an Obligation may be redeemed only in an integral multiple of \$5,000), at the redemption price of the principal amount thereof, plus accrued interest to the date fixed for redemption.

Notice of Redemption; Selection of Bonds to Be Redeemed

See “APPENDIX B - FORM OF OFFICIAL ACTION.”

The Paying Agent/Registrar, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption of the Bonds, notice of proposed amendment to the Ordinance or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the Issuer will reduce the outstanding principal amount of such Bonds held by DTC.

Book-Entry-Only System

The information in this caption concerning The Depository Trust Company, New York, New York (“DTC”) and DTC’s book entry system has been obtained from DTC and the Issuer makes no representation or warranty nor takes any responsibility for the accuracy or completeness of such information.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond will be issued for each maturity and series of the Bonds, as set forth on the inside of the cover page hereof, in the aggregate principal amount of such maturity and will be deposited with DTC.

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

TAX MATTERS

Opinion

Bond Counsel will deliver its opinion on the date of delivery of the Bonds substantially in the form as attached in “APPENDIX C - FORM OF OPINION OF BOND COUNSEL.”

OTHER INFORMATION

Forward Looking Statements

The statements contained in this Private Placement Memorandum, including the cover page, appendices, and any other information or documents provided by the Issuer, that are not purely historical, are forward-looking statements, including statements regarding the Issuer's expectations, hopes, intentions, or strategies regarding the future. Holders and beneficial owners of the Bonds have placed reliance on forward-looking statements. All forward looking statements included in this Private Placement Memorandum are based on information available to the Issuer on the date hereof. It is important to note that the Issuer's actual results could differ materially from those in such forward-looking statements.

Ratings

No application has been made to any ratings agency or municipal bond insurance company for qualification of the Bonds for ratings or municipal bond insurance, respectively.

LITIGATION

General

On the date of delivery of the Bonds to the initial purchasers thereof, the Issuer will execute and deliver a certificate to the effect that, except as disclosed herein, no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner questioning the validity of the Bonds.

The Issuer

There is no litigation, proceeding, inquiry, or investigation pending by or before any court or other governmental authority or entity (or, to the best knowledge of the Issuer, threatened) that adversely affects the power, authority or obligation of the Issuer to deliver the Bonds, the security for, or the validity of, the Bonds or the financial condition of the Issuer.

CONTINUING DISCLOSURE OF INFORMATION

In the Official Action, the Issuer has entered into a continuing disclosure agreement as described in the Official Action for the benefit of the holders and beneficial owners of the Bonds. The Issuer is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the Issuer will be obligated to provide certain updated financial information and operating data, and timely notice of specified material events, to the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access System. SEE APPENDIX B - "FORM OF OFFICIAL ACTION."

Compliance with Prior Undertakings

In April 2010, Fitch upgraded its rating on the City's waterworks and sewer system revenue supported indebtedness from "AA" to "AA+". This rating change was the result of a widespread recalibration of U.S. public finance ratings by Fitch to ensure a greater degree of comparability across Fitch's global portfolio of credit ratings and, as noted by Fitch in its press release regarding the recalibration, should not be interpreted as an improvement in the credit quality of the affected securities. At the time of this Fitch rating change, the Rule and the City's continuing disclosure undertakings made in accordance with the Rule required that notice of rating changes be given only if such change was material within the meaning of federal securities laws. The City believes that such rating change by Fitch due to recalibration was not material within the meaning of federal securities laws, particularly in light of Fitch's widespread explanation of the purpose of its recalibration efforts. Accordingly, the City, on January 20, 2015, made a filing with the MSRB through EMMA regarding this change in Fitch rating for informational purposes only. Also, in the past five years there have been numerous rating actions reported by Moody's Investors Service, Inc., S&P and Fitch affecting the municipal bond insurance companies, some of which had insured bonds previously issued by the City. Due to widespread knowledge of these rating actions, material event notices were not filed by the City.

MISCELLANEOUS

Any statements made in this Private Placement Memorandum involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Neither this Private Placement Memorandum nor any statement that may have been made verbally or in writing is to be construed as a contract with the owners of the Bonds.

The information contained above is neither guaranteed as to accuracy or completeness nor to be construed as a representation by the Issuer. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Private Placement Memorandum nor any sale made hereunder is to create, under any circumstances, any implication that there has been no change in the affairs of the Issuer or the Issuer from the date hereof.

The Private Placement Memorandum is submitted in connection with the sale of the securities referred to herein to the Texas Water Development Board on the Delivery Date and may not be reproduced or used, as a whole or in part, for any other purpose.

ADDITIONAL INFORMATION

The Private Placement Memorandum speaks only as of its date and the information contained herein is subject to change. Descriptions of the Bonds and the Official Action and any other agreements and documents contained herein constitute summaries of certain provisions thereof and do not purport to be complete. This Private Placement Memorandum was approved by the Issuer.

APPENDIX A
MATURITY SCHEDULE

APPENDIX A
MATURITY SCHEDULE

Principal Amount*	Maturity (February 1)	Interest Rate	CUSIP 579160	Principal Amount*	Maturity (February 1)	Interest Rate	CUSIP 579160
\$115,000	2020	0.000%		\$245,000	2035	0.000%	
115,000	2021	0.000%		250,000	2036	0.000%	
120,000	2022	0.000%		260,000	2037	0.000%	
120,000	2023	0.000%		265,000	2038	0.000%	
180,000	2024	0.000%		275,000	2039	0.000%	
185,000	2025	0.000%		285,000	2040	0.000%	
190,000	2026	0.000%		290,000	2041	0.000%	
190,000	2027	0.000%		300,000	2042	0.000%	
195,000	2028	0.000%		310,000	2043	0.000%	
200,000	2029	0.000%		320,000	2044	0.000%	
205,000	2030	0.000%		330,000	2045	0.000%	
210,000	2031	0.000%		340,000	2046	0.000%	
220,000	2032	0.000%		350,000	2047	0.000%	
230,000	2033	0.000%		365,000	2048	0.000%	
240,000	2034	0.000%					

* Preliminary, subject to change.

APPENDIX B
FORM OF OFFICIAL ACTION

(DRAFT - SWIFT - 5-2-18)

ORDINANCE NO. 20__ - __

ORDINANCE AUTHORIZING THE ISSUANCE OF CITY OF McALLEN, TEXAS WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2018, IN THE PRINCIPAL AMOUNT OF \$_____ TO BE SOLD TO THE TEXAS WATER DEVELOPMENT BOARD AND ORDAINING OTHER MATTERS RELATED THERETO

THE STATE OF TEXAS :
COUNTY OF HIDALGO :
CITY OF McALLEN :

WHEREAS, the outstanding bonds of the City of McAllen (the "Issuer" or "City"), which are secured by the Net Revenues of the Issuer's Waterworks and Sewer System are as follows:

City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2009, dated December 1, 2009, now outstanding in the principal amount of \$_____ (the "Series 2009 Bonds")

City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2012, dated July 1, 2012, now outstanding in the principal amount of \$_____ (the "Series 2012 Bonds")

City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2013, dated August 15, 2013, now outstanding in the principal amount of \$_____ (the "Series 2013 Bonds");

City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2013-A, dated August 15, 2013, now outstanding in the principal amount of \$_____ (the "Series 2013-A Bonds");

City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2013-B, dated August 15, 2013, now outstanding in the principal amount of \$_____ (the "Series 2013-B Bonds"); and

City of McAllen, Texas Waterworks and Sewer System Revenue Refunding Bonds, Series 2015, dated January 15, 2015, now outstanding in the principal amount of \$_____ (the "Series 2015 Refunding Bonds")

City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2015, dated April 1, 2015, now outstanding in the principal amount of \$_____ (the "Series 2015 Bonds"); and

City of McAllen, Texas Waterworks and Sewer System Revenue Refunding Bonds, Series 2016, dated June 15, 2016, now outstanding in the principal amount of \$_____ (the "Series 2016 Refunding Bonds"); and

City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2016, dated December 1, 2016, now outstanding in the principal amount of \$_____ (the "Series 2016 Bonds"); and

WHEREAS, the bonds hereinafter authorized (the "Bonds") are to be issued and delivered pursuant to Chapter 1502, Government Code; and

WHEREAS, the meeting was open to the public and public notice of the time, place and purpose of said meeting was given pursuant to Chapter 551, Texas Government Code.

BE IT ORDAINED BY THE CITY COMMISSION OF THE CITY OF McALLEN, TEXAS, THAT:

Section 1. **AMOUNT AND PURPOSE OF THE BONDS.** The bond or bonds of the City of McAllen (the "Issuer" or "City") are hereby authorized to be issued and delivered in the aggregate principal amount of \$_____ for the purpose of improving and extending the Issuer's Waterworks and Sewer System, to-wit: improvements and extensions to the waterworks system.

Section 2. **DESIGNATION OF THE BONDS.** Each bond issued pursuant to this Ordinance shall be designated: "CITY OF McALLEN, TEXAS WATERWORKS AND SEWER SYSTEM REVENUE BOND, SERIES 2018", and initially there shall be issued, sold, and delivered hereunder a single fully registered bond, without interest coupons, payable in annual installments of principal (the "Initial Bond"), but the Initial Bond may be assigned and transferred and/or converted into and exchanged for a like aggregate principal amount of fully registered bonds, without interest coupons, having serial and annual maturities, and in the denomination or denominations of \$5,000 or any integral multiple of \$5,000, all in the manner hereinafter provided. The term "Bonds" as used in this Ordinance shall mean and include collectively the Initial Bond and all substitute bonds exchanged therefor, as well as all other substitute bonds and replacement bonds issued pursuant hereto, and the term "Bond" shall mean any of the Bonds.

Section 3. **INITIAL DATE, DENOMINATION, NUMBER, MATURITIES, INITIAL REGISTERED OWNER, AND CHARACTERISTICS OF THE INITIAL BOND.** (a) The Initial Bond is hereby authorized to be issued, sold, and delivered hereunder as a single fully registered Bond, without interest coupons, dated _____, 2018, in the denomination and aggregate principal amount of \$_____, numbered R-1, payable in annual installments of principal to the initial registered owner thereof, to-wit: TEXAS WATER DEVELOPMENT BOARD, or to the registered assignee or assignees of said Bond or any portion or portions thereof (in each case, the "registered owner"), with the annual installments of principal of the Initial Bond to be payable on the dates, respectively, and in the principal amounts, respectively, stated in the FORM OF INITIAL BOND set forth in this Ordinance.

(b) The Initial Bond (i) may be prepaid or redeemed prior to the respective scheduled due dates of installments of principal thereof (only with written approval of the Executive Administrator), (ii) may be assigned and transferred, (iii) may be converted and exchanged for other Bonds, (iv) shall have the characteristics, and (v) shall be signed and sealed, and the principal of and interest on the Initial Bond shall be payable, all as provided, and in the manner required or indicated, in the FORM OF INITIAL BOND set forth in this Ordinance.

Section 4. **INTEREST.** The unpaid principal balance of the Initial Bond shall bear interest from the date of delivery of the Initial Bond and will be calculated on the basis of a 360-day year of twelve 30-day months to the respective scheduled due dates, or to the respective dates of prepayment or redemption, of the

installments of principal of the Initial Bond, and said interest shall be payable, all in the manner provided and at the rates and on the dates stated in the FORM OF INITIAL BOND set forth in this Ordinance.

Section 5. FORM OF INITIAL BOND. The form of the Initial Bond, including the form of Registration Certificate of the Comptroller of Public Accounts of the State of Texas to be endorsed on the Initial Bond, shall be substantially as follows:

FORM OF INITIAL BOND

NO. R-1

\$ _____

**UNITED STATES OF AMERICA
STATE OF TEXAS
COUNTY OF HIDALGO
CITY OF McALLEN, TEXAS
WATERWORKS AND SEWER SYSTEM REVENUE BOND, SERIES 2018**

The CITY OF McALLEN, in HIDALGO COUNTY, Texas (the "Issuer"), being a political subdivision of the State of Texas, hereby promises to pay to

TEXAS WATER DEVELOPMENT BOARD

or to the registered assignee or assignees of this Bond or any portion or portions hereof (in each case, the "registered owner") the aggregate principal amount of

in annual installments of principal due and payable on February 1 in each of the years, and in the respective principal amounts, as set forth in the following schedule:

YEARS

AMOUNTS

YEARS

AMOUNTS

and to pay interest, from the date of delivery of this Initial Bond (_____, 2018), on the balance of each such installment of principal, respectively, from time to time remaining unpaid, at the following rates per annum:

<u>YEARS</u>	<u>INTEREST RATES</u>	<u>YEARS</u>	<u>INTEREST RATES</u>
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Said interest being payable on _____, 2018 and semiannually on each August 1 and February 1 thereafter while this Bond or any portion hereof is outstanding and unpaid.

THE INSTALLMENTS OF PRINCIPAL OF AND THE INTEREST ON this Bond are payable in lawful money of the United States of America, without exchange or collection charges. The installments of principal and the interest on this Bond are payable to the registered owner hereof through the services of _____, _____, _____, the "Paying Agent/Registrar" for this Bond. Payment of all principal of and interest on this Bond shall be made by the Paying Agent/Registrar to the registered owner hereof on each principal and/or interest payment date by check or draft, dated as of such date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the Issuer required by the ordinance authorizing the issuance of this Bond (the "Bond Ordinance") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such principal and/or interest payment date, to the registered owner hereof, at the address of the registered owner, as it appeared on the 15th day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar as hereinafter described. In addition, interest may be paid by electronic or wire transfer, or by such other method acceptable to Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner, however, if the Bond is owned by the Texas Water Development Board, payment of principal and interest on the Bond shall be made by federal fund wire transfer, at no cost to the Texas Water Development Board. The Issuer covenants with the registered owner of this Bond that on or before each principal and/or interest payment date for this Bond it will make available to the Paying Agent/Registrar, from the "Interest and Sinking Fund" created by the Bond Ordinance, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on this Bond, when due.

IF THE DATE for the payment of the principal of or interest on this Bond shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

THIS BOND has been authorized in accordance with the Constitution and laws of the State of Texas in the principal amount of \$_____ for the purpose of improving and extending the City's Waterworks and Sewer System, to-wit: improvements and extensions to the waterworks system.

ON FEBRUARY 1, 20___, or any date thereafter, the unpaid installments of principal of this Bond may be prepaid or redeemed prior to their scheduled due dates, at the option of the Issuer, with funds derived from any available source, as a whole, or in part, and, if in part, the Issuer shall select, in inverse order of maturity and designate the maturity, or maturities, and the amount that is to be redeemed, and if less than a

whole maturity is to be called, the Issuer shall direct the Paying Agent/Registrar to call by lot (provided that a portion of this Bond may be redeemed only in an integral multiple of \$5,000), at the redemption price of the principal amount, plus accrued interest to the date fixed for prepayment or redemption.

AT LEAST 30 days prior to the date fixed for any such prepayment or redemption a written notice of such prepayment or redemption shall be mailed by the Paying Agent/Registrar to the registered owner hereof. By the date fixed for any such prepayment or redemption due provision shall be made by the Issuer with the Paying Agent/Registrar for the payment of the required prepayment or redemption price for this Bond or the portion hereof which is to be so prepaid or redeemed, plus accrued interest thereon to the date fixed for prepayment or redemption. If such written notice of prepayment or redemption is given, and if due provision for such payment is made, all as provided above, this Bond, or the portion thereof which is to be so prepaid or redeemed, thereby automatically shall be treated as prepaid or redeemed prior to its scheduled due date, and shall not bear interest after the date fixed for its prepayment or redemption, and shall not be regarded as being outstanding except for the right of the registered owner to receive the prepayment or redemption price plus accrued interest to the date fixed for prepayment or redemption from the Paying Agent/Registrar out of the funds provided for such payment. The Paying Agent/Registrar shall record in the Registration Books all such prepayments or redemptions of principal of this Bond or any portion hereof.

THIS BOND, to the extent of the unpaid or unredeemed principal balance hereof, or any unpaid and unredeemed portion hereof in any integral multiple of \$5,000, may be assigned by the initial registered owner hereof and shall be transferred only in the Registration Books of the Issuer kept by the Paying Agent/Registrar acting in the capacity of registrar for the Bonds, upon the terms and conditions set forth in the Bond Ordinance. Among other requirements for such transfer, this Bond must be presented and surrendered to the Paying Agent/Registrar for cancellation, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Paying Agent/Registrar, evidencing assignment by the initial registered owner of this Bond, or any portion or portions hereof in any integral multiple of \$5,000, to the assignee or assignees in whose name or names this Bond or any such portion or portions hereof is or are to be transferred and registered. Any instrument or instruments of assignment satisfactory to the Paying Agent/Registrar may be used to evidence the assignment of this Bond or any such portion or portions hereof by the initial registered owner hereof. A new bond or bonds payable to such assignee or assignees (which then will be the new registered owner or owners of such new Bond or Bonds) or to the initial registered owner as to any portion of this Bond which is not being assigned and transferred by the initial registered owner, shall be delivered by the Paying Agent/Registrar in conversion of and exchange for this Bond or any portion or portions hereof, but solely in the form and manner as provided in the next paragraph hereof for the conversion and exchange of this Bond or any portion hereof. The registered owner of this Bond shall be deemed and treated by the Issuer and the Paying Agent/Registrar as the absolute owner hereof for all purposes, including payment and discharge of liability upon this Bond to the extent of such payment, and the Issuer and the Paying Agent/Registrar shall not be affected by any notice to the contrary.

AS PROVIDED above and in the Bond Ordinance, this Bond, to the extent of the unpaid or unredeemed principal balance hereof, may be converted into and exchanged for a like aggregate principal amount of fully registered bonds, without interest coupons, payable to the assignee or assignees duly designated in writing by the initial registered owner hereof, or to the initial registered owner as to any portion of this Bond which is not being assigned and transferred by the initial registered owner, in any denomination or denominations in any integral multiple of \$5,000 (subject to the requirement hereinafter stated that each substitute bond issued in exchange for any portion of this Bond shall have a single stated principal maturity date), upon surrender of this Bond to the Paying Agent/Registrar for cancellation, all in accordance with the form and procedures set forth in the Bond Ordinance. If this Bond or any portion hereof is assigned and

transferred or converted each bond issued in exchange for any portion hereof shall have a single stated principal maturity date corresponding to the due date of the installment of principal of this Bond or portion hereof for which the substitute bond is being exchanged, and shall bear interest at the rate applicable to and borne by such installment of principal or portion thereof. Such bonds, respectively, shall be subject to redemption prior to maturity on the same dates and for the same prices as the corresponding installment of principal of this Bond or portion hereof for which they are being exchanged. No such bond shall be payable in installments, but shall have only one stated principal maturity date. AS PROVIDED IN THE BOND ORDINANCE, THIS BOND IN ITS PRESENT FORM MAY BE ASSIGNED AND TRANSFERRED OR CONVERTED ONCE ONLY, and to one or more assignees, but the bonds issued and delivered in exchange for this Bond or any portion hereof may be assigned and transferred, and converted, subsequently, as provided in the Bond Ordinance. The Issuer shall pay the Paying Agent/Registrar's standard or customary fees and charges for transferring, converting, and exchanging this Bond or any portion thereof, but the one requesting such transfer, conversion, and exchange shall pay any taxes or governmental charges required to be paid with respect thereto. The Paying Agent/Registrar shall not be required to make any such assignment, conversion, or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or, (ii) with respect to any Bond or portion thereof called for prepayment or redemption prior to maturity, within 45 days prior to its prepayment or redemption date.

IN THE EVENT any Paying Agent/Registrar for this Bond is changed by the Issuer, resigns, or otherwise ceases to act as such, the Issuer has covenanted in the Bond Ordinance that it promptly will appoint a competent and legally qualified substitute therefor, and promptly will cause written notice thereof to be mailed to the registered owner of this Bond.

IT IS HEREBY certified, recited, and covenanted that this Bond has been duly and validly authorized, issued, sold, and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the authorization, issuance, and delivery of this Bond have been performed, existed, and been done in accordance with law, that this Bond is a special obligation; and that the interest on and principal of this Bond, together with other outstanding revenue bonds, if any, are payable from and secured by an irrevocable first lien on and pledge of the Pledge Revenues, as defined by the Bond Ordinance and which revenues include the Net Revenues of said Issuer's Waterworks and Sewer System.

THE ISSUER has reserved the right, subject to the restrictions stated and adopted by reference in the Ordinance authorizing this Series of Bonds, to issue additional parity revenue bonds which also may be made payable from, and secured by a lien on and pledge of the aforesaid Net Revenues.

THE OWNER HEREOF shall never have the right to demand payment of this obligation out of any funds raised or to be raised by taxation, or from any source whatsoever other than the aforesaid Net Revenues.

BY BECOMING the registered owner of this Bond, the registered owner thereby acknowledges all of the terms and provisions of the Bond Ordinance, agrees to be bound by such terms and provisions, acknowledges that the Bond Ordinance is duly recorded and available for inspection in the official minutes and records of the governing body of the Issuer, and agrees that the terms and provisions of this Bond and the Bond Ordinance constitute a contract between the registered owner hereof and the Issuer.

IN WITNESS WHEREOF, the Issuer has caused this Bond to be signed with the manual or facsimile signature of the Mayor of the Issuer and countersigned with the manual or facsimile signature of the City Secretary of the Issuer, has caused the official seal of the Issuer to be duly impressed on this Bond, and has caused this Bond to be dated _____, 2018.

City Secretary

Mayor

(CITY SEAL)

The following shall be printed on said Bond:

"This Bond was delivered to and paid for by the
Purchaser thereof on _____, 2018".

**FORM OF REGISTRATION CERTIFICATE OF THE
COMPTROLLER OF PUBLIC ACCOUNTS:**

COMPTROLLER'S REGISTRATION CERTIFICATE: REGISTER NO.

I hereby certify that this Bond has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Bond has been registered by the Comptroller of Public Accounts of the State of Texas.

Witness my signature and seal this

Comptroller of Public Accounts of the State of Texas

(COMPTROLLER'S SEAL)

Section 6. ADDITIONAL CHARACTERISTICS OF THE BONDS. (a) Registration and Transfer. The Issuer shall keep or cause to be kept at the principal corporate trust office of _____, _____, _____, (the "Paying Agent/Registrar") books or records of the registration and transfer of the Bonds (the "Registration Books"), and the Issuer hereby appoints the Paying Agent/Registrar as its registrar and transfer agent to keep such books or records and make such transfers and registrations under such reasonable regulations as the Issuer and Paying Agent/Registrar may prescribe; and the Paying Agent/Registrar shall make such transfers and registrations as herein provided. The Paying Agent/Registrar shall obtain and record in the Registration Books the address of the registered owner of each Bond to which payments with respect to the Bonds shall be mailed, as herein provided; but it shall be the duty of each registered owner to notify the Paying Agent/Registrar in writing of the address to which payments shall be mailed, and such interest payments shall not be mailed unless such notice has been given. The Issuer shall have the right to inspect the Registration Books during regular business hours of the Paying Agent/Registrar, but otherwise the Paying Agent/Registrar shall keep the Registration Books confidential and, unless otherwise required by law, shall not permit their inspection by any other entity. Registration of each Bond may be

transferred in the Registration Books only upon presentation and surrender of such Bond to the Paying Agent/Registrar for transfer of registration and cancellation, together with proper written instruments of assignment, in form and with guarantee of signatures satisfactory to the Paying Agent/Registrar, (i) evidencing the assignment of the Bond, or any portion thereof in any integral multiple of \$5,000, to the assignee or assignees thereof, and (ii) the right of such assignee or assignees to have the Bond or any such portion thereof registered in the name of such assignee or assignees. Upon the assignment and transfer of any Bond or any portion thereof, a new substitute Bond or Bonds shall be issued in conversion and exchange therefor in the manner herein provided. The Initial Bond, to the extent of the unpaid or unredeemed principal balance thereof, may be assigned and transferred by the initial registered owner thereof once only, and to one or more assignees designated in writing by the initial registered owner thereof. All Bonds issued and delivered in conversion of and exchange for the Initial Bond shall be in any denomination or denominations of any integral multiple of \$5,000 (subject to the requirement hereinafter stated that each substitute Bond shall have a single stated principal maturity date), shall be in the form prescribed in the FORM OF SUBSTITUTE BOND set forth in this Ordinance, and shall have the characteristics, and may be assigned, transferred, and converted as hereinafter provided. If the Initial Bond or any portion thereof is assigned and transferred or converted the Initial Bond must be surrendered to the Paying Agent/Registrar for cancellation, and each Bond issued in exchange for any portion of the Initial Bond shall have a single stated principal maturity date, and shall not be payable in installments; and each such Bond shall have a principal maturity date corresponding to the due date of the installment of principal or portion thereof for which the substitute Bond is being exchanged; and each such Bond shall bear interest at the single rate applicable to and borne by such installment of principal or portion thereof for which it is being exchanged. If only a portion of the Initial Bond is assigned and transferred, there shall be delivered to and registered in the name of the initial registered owner substitute Bonds in exchange for the unassigned balance of the Initial Bond in the same manner as if the initial registered owner were the assignee thereof. If any Bond or portion thereof other than the Initial Bond is assigned and transferred or converted each Bond issued in exchange shall have the same principal maturity date and bear interest at the same rate as the Bond for which it is exchanged. A form of assignment shall be printed or endorsed on each Bond, excepting the Initial Bond, which shall be executed by the registered owner or its duly authorized attorney or representative to evidence an assignment thereof. Upon surrender of any Bonds or any portion or portions thereof for transfer of registration, an authorized representative of the Paying Agent/Registrar shall make such transfer in the Registration Books, and shall deliver a new fully registered substitute Bond or Bonds, having the characteristics herein described, payable to such assignee or assignees (which then will be the registered owner or owners of such new Bond or Bonds), or to the previous registered owner in case only a portion of a Bond is being assigned and transferred, all in conversion of and exchange for said assigned Bond or Bonds or any portion or portions thereof, in the same form and manner, and with the same effect, as provided in Section 6(d), below, for the conversion and exchange of Bonds by any registered owner of a Bond. The Issuer shall pay the Paying Agent/Registrar's standard or customary fees and charges for making such transfer and delivery of a substitute Bond or Bonds, but the one requesting such transfer shall pay any taxes or other governmental charges required to be paid with respect thereto. The Paying Agent/Registrar shall not be required to make transfers of registration of any Bond or any portion thereof (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or, (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

(b) Ownership of Bonds. The entity in whose name any Bond shall be registered in the Registration Books at any time shall be deemed and treated as the absolute owner thereof for all purposes of this Ordinance, whether or not such Bond shall be overdue, and the Issuer and the Paying Agent/Registrar shall not be affected by any notice to the contrary; and payment of, or on account of, the principal of, premium,

if any, and interest on any such Bond shall be made only to such registered owner. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

(c) Payment of Bonds and Interest. The Issuer hereby further appoints the Paying Agent/Registrar to act as the paying agent for paying the principal of and interest on the Bonds, and to act as its agent to convert and exchange or replace Bonds, all as provided in this Ordinance. The Paying Agent/Registrar shall keep proper records of all payments made by the Issuer and the Paying Agent/Registrar with respect to the Bonds, and of all conversions and exchanges of Bonds, and all replacements of Bonds, as provided in this Ordinance. However, in the event of a nonpayment of interest on a scheduled payment date, and for thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be two days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Bondholder appearing on the Security Register at the close of business on the last business day next preceding the date of mailing of such notice.

(d) Conversion and Exchange or Replacement; Authentication. Each Bond issued and delivered pursuant to this Ordinance, to the extent of the unpaid or unredeemed principal balance or principal amount thereof, may, upon surrender of such Bond at the principal corporate trust office of the Paying Agent/Registrar, together with a written request therefor duly executed by the registered owner or the assignee or assignees thereof, or its or their duly authorized attorneys or representatives, with guarantee of signatures satisfactory to the Paying Agent/Registrar, may, at the option of the registered owner or such assignee or assignees, as appropriate, be converted into and exchanged for fully registered bonds, without interest coupons, in the form prescribed in the FORM OF SUBSTITUTE BOND set forth in this Ordinance, in the denomination of \$5,000, or any integral multiple of \$5,000 (subject to the requirement hereinafter stated that each substitute Bond shall have a single stated maturity date), as requested in writing by such registered owner or such assignee or assignees, in an aggregate principal amount equal to the unpaid or unredeemed principal balance or principal amount of any Bond or Bonds so surrendered, and payable to the appropriate registered owner, assignee, or assignees, as the case may be. If the Initial Bond is assigned and transferred or converted each substitute Bond issued in exchange for any portion of the Initial Bond shall have a single stated principal maturity date, and shall not be payable in installments; and each such Bond shall have a principal maturity date corresponding to the due date of the installment of principal or portion thereof for which the substitute Bond is being exchanged; and each such Bond shall bear interest at the single rate applicable to and borne by such installment of principal or portion thereof for which it is being exchanged. If a portion of any Bond (other than the Initial Bond) shall be redeemed prior to its scheduled maturity as provided herein, a substitute Bond or Bonds having the same maturity date, bearing interest at the same rate, in the denomination or denominations of any integral multiple of \$5,000 at the request of the registered owner, and in aggregate principal amount equal to the unredeemed portion thereof, will be issued to the registered owner upon surrender thereof for cancellation. If any Bond or portion thereof (other than the Initial Bond) is assigned and transferred or converted, each Bond issued in exchange therefor shall have the same principal maturity date and bear interest at the same rate as the Bond for which it is being exchanged. Each substitute Bond shall bear a letter and/or number to distinguish it from each other Bond. The Paying Agent/Registrar shall convert and exchange or replace Bonds as provided herein, and each fully registered bond delivered in conversion of and exchange for or replacement of any Bond or portion thereof as permitted or required by any provision of this Ordinance shall constitute one of the Bonds for all purposes of this Ordinance, and may again be converted and exchanged or replaced. It is specifically provided that any Bond

authenticated in conversion of and exchange for or replacement of another Bond on or prior to the first scheduled Record Date for the Initial Bond shall bear interest from the date of the Initial Bond, but each substitute Bond so authenticated after such first scheduled Record Date shall bear interest from the interest payment date next preceding the date on which such substitute Bond was so authenticated, unless such Bond is authenticated after any Record Date but on or before the next following interest payment date, in which case it shall bear interest from such next following interest payment date; provided, however, that if at the time of delivery of any substitute Bond the interest on the Bond for which it is being exchanged is due but has not been paid, then such Bond shall bear interest from the date to which such interest has been paid in full. THE INITIAL BOND issued and delivered pursuant to this Ordinance is not required to be, and shall not be, authenticated by the Paying Agent/ Registrar, but on each substitute Bond issued in conversion of and exchange for or replacement of any Bond or Bonds issued under this Ordinance there shall be printed a certificate, in the form substantially as follows:

"PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

It is hereby certified that this Bond has been issued under the provisions of the Bond Ordinance described on the face of this Bond; and that this Bond has been issued in conversion of and exchange for or replacement of a bond, bonds, or a portion of a bond or bonds of an issue which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

_____, _____
Paying Agent/Registrar

Dated _____

By _____
Authorized Representative"

An authorized representative of the Paying Agent/Registrar shall, before the delivery of any such Bond, date and manually sign the above Certificate, and no such Bond shall be deemed to be issued or outstanding unless such Certificate is so executed. The Paying Agent/Registrar promptly shall cancel all Bonds surrendered for conversion and exchange or replacement. No additional ordinances, orders, or resolutions need be passed or adopted by the governing body of the Issuer or any other body or person so as to accomplish the foregoing conversion and exchange or replacement of any Bond or portion thereof, and the Paying Agent/Registrar shall provide for the printing, execution, and delivery of the substitute Bonds in the manner prescribed herein, and said Bonds shall be of type composition printed on paper with lithographed or steel engraved borders of customary weight and strength. Pursuant to Chapter 1201, Texas Government Code, the duty of conversion and exchange or replacement of Bonds as aforesaid is hereby imposed upon the Paying Agent/Registrar, and, upon the execution of the above Paying Agent/Registrar's Authentication Certificate, the converted and exchanged or replaced Bond shall be valid, incontestable, and enforceable in the same manner and with the same effect as the Initial Bond which originally was issued pursuant to this Ordinance, approved by the Attorney General, and registered by the Comptroller of Public Accounts. The Issuer shall pay the Paying Agent/Registrar's standard or customary fees and charges for transferring, converting, and exchanging any Bond or any portion thereof, but the one requesting any such transfer, conversion, and exchange shall pay any taxes or governmental charges required to be paid with respect thereto as a condition precedent to the exercise of such privilege of conversion and exchange. The Paying Agent/Registrar shall not be required to make any such conversion and exchange or replacement of Bonds or any portion thereof (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or, (ii) with respect to any Bond or portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

(e) In General. All Bonds issued in conversion and exchange or replacement of any other Bond or portion thereof, (i) shall be issued in fully registered form, without interest coupons, with the principal of and interest on such Bonds to be payable only to the registered owners thereof, (ii) may be redeemed prior to their scheduled maturities, (iii) may be transferred and assigned, (iv) may be converted and exchanged for other Bonds, (v) shall have the characteristics, (vi) shall be signed and sealed, and (vii) the principal of and interest on the Bonds shall be payable, all as provided, and in the manner required or indicated, in the FORM OF SUBSTITUTE BOND set forth in this Ordinance.

(f) Payment of Fees and Charges. The Issuer hereby covenants with the registered owners of the Bonds that it will (i) pay the standard or customary fees and charges of the Paying Agent/Registrar for its services with respect to the payment of the principal of and interest on the Bonds, when due, and (ii) pay the fees and charges of the Paying Agent/Registrar for services with respect to the transfer of registration of Bonds, and with respect to the conversion and exchange of Bonds solely to the extent above provided in this Ordinance.

(g) Substitute Paying Agent/Registrar. The Issuer covenants with the registered owners of the Bonds that at all times while the Bonds are outstanding the Issuer will provide a competent and legally qualified bank, trust company, financial institution, or other agency to act as and perform the services of Paying Agent/Registrar for the Bonds under this Ordinance, and that the Paying Agent/Registrar will be one entity. The Issuer reserves the right to, and may, at its option, change the Paying Agent/Registrar upon not less than 120 days written notice to the Paying Agent/ Registrar, to be effective not later than 60 days prior to the next principal or interest payment date after such notice. However, the Issuer must obtain approval of the Texas Water Development Board to such change if the Texas Water Development Board owns any of the bonds. In the event that the entity at any time acting as Paying Agent/Registrar (or its successor by merger, acquisition, or other method) should resign or otherwise cease to act as such, the Issuer covenants that promptly it will appoint a competent and legally qualified bank, trust company, financial institution, or other agency to act as Paying Agent/Registrar under this Ordinance. Upon any change in the Paying Agent/Registrar, the previous Paying Agent/Registrar promptly shall transfer and deliver the Registration Books (or a copy thereof), along with all other pertinent books and records relating to the Bonds, to the new Paying Agent/Registrar designated and appointed by the Issuer. Upon any change in the Paying Agent/Registrar, the Issuer promptly will cause a written notice thereof to be sent by the new Paying Agent/Registrar to each registered owner of the Bonds, by United States mail, first-class postage prepaid, which notice also shall give the address of the new Paying Agent/Registrar. By accepting the position and performing as such, each Paying Agent/Registrar shall be deemed to have agreed to the provisions of this Ordinance, and a certified copy of this Ordinance shall be delivered to each Paying Agent/Registrar.

(h) Book-Entry Only System. The Bonds issued in exchange for the Bonds initially issued to the purchaser specified herein shall be initially issued in the form of a separate single fully registered Bond for each of the maturities thereof. Upon initial issuance, the ownership of each such Bond shall be registered in the name of Cede & Co., as nominee of Depository Trust Company of New York ("DTC"), and except as provided in subsection (f) hereof, all of the outstanding Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, the Issuer and the Paying Agent/Registrar shall have no responsibility or obligation to any DTC Participant or to any person on behalf of whom such a DTC Participant holds an interest on the Bonds. Without limiting the immediately preceding sentence, the Issuer and the Paying Agent/Registrar shall have no responsibility or obligation with

respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other person, other than a Bondholder, as shown on the Registration Books, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any DTC Participant or any other person, other than a Bondholder, as shown in the Registration Books of any amount with respect to principal of, premium, if any, or interest on, as the case may be, the Bonds. Notwithstanding any other provision of this Ordinance to the contrary, the Issuer and the Paying Agent/Registrar shall be entitled to treat and consider the person in whose name each Bond is registered in the Registration Books as the absolute owner of such Bond for the purpose of payment of principal, premium, if any, and interest, as the case may be, with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Paying Agent/Registrar shall pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective owners, as shown in the Registration Books as provided in this Ordinance, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the Issuer's obligations with respect to payment of principal of, premium, if any, and interest on, or as the case may be, the Bonds to the extent of the sum or sums so paid. No person other than an owner, as shown in the Registration Books, shall receive a Bond certificate evidencing the obligation of the Issuer to make payments of principal, premium, if any, and interest, as the case may be, pursuant to this Ordinance. Upon delivery by DTC to the Paying Agent/Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions in this Ordinance with respect to interest checks being mailed to the registered owner at the close of business on the Record Date, the word "Cede & Co." in this Ordinance shall refer to such new nominee of DTC.

(i) Successor Securities Depository; Transfers Outside Book-Entry Only System. In the event that the Issuer or the Paying Agent/Registrar determines that DTC is incapable of discharging its responsibilities described herein and in the representation letter of the Issuer to DTC and that it is in the best interest of the beneficial owners of the Bonds that they be able to obtain certificated Bonds, the Issuer or the Paying Agent/Registrar shall (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities and Exchange Act of 1934, as amended, notify DTC and DTC Participants of the appointment of such successor securities depository and transfer one or more separate Bonds to such successor securities depository or (ii) notify DTC and DTC Participants of the availability through DTC of Bonds and transfer one or more separate Bonds to DTC Participants having Bonds credited to their DTC accounts. In such event, the Bonds shall no longer be restricted to being registered in the Registration Books in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names Bondholders transferring or exchanging Bonds shall designate, in accordance with the provisions of this Ordinance. In addition, notice of such discharge by DTC shall be given to the Texas Water Development Board and consent obtained, if the Texas Water Development Board owns any of the Bonds.

(j) Payments to Cede & Co. Notwithstanding any other provision of this Ordinance to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of, premium, if any, and interest on, or as the case may be, such Bond and all notices with respect to such Bond shall be made and given, respectively, in the manner provided in the representation letter of the Issuer to DTC.

Section 7. **FORM OF SUBSTITUTE BONDS.** The form of all Bonds issued in conversion and exchange or replacement of any other Bond or portion thereof, including the form of Paying Agent/Registrar's Certificate to be printed on each of such Bonds, and the Form of Assignment to be printed on each of the Bonds, shall be, respectively, substantially as follows, with such appropriate variations, omissions, or insertions as are permitted or required by this Ordinance.

FORM OF SUBSTITUTE BOND

NO. _____

PRINCIPAL AMOUNT

**UNITED STATES OF AMERICA
STATE OF TEXAS
COUNTY OF HIDALGO
CITY OF McALLEN, TEXAS
WATERWORKS AND SEWER SYSTEM REVENUE BOND, SERIES 2018**

<u>Interest Rate</u>	<u>Date of Original Delivery</u>	<u>Maturity Date</u>	<u>Date of Original Issue</u>	<u>Cusip No.</u>
	_____, 2018		_____, 2018	

ON THE MATURITY DATE specified above THE CITY OF McALLEN, in HIDALGO COUNTY, Texas (the "Issuer"), being a political subdivision of the State of Texas, hereby promises to pay to

or to the registered assignee hereof (either being hereinafter called the "registered owner") the principal amount of

and to pay interest thereon from the date of original delivery (which date appears above) to the maturity date specified above, or the date of redemption prior to maturity, at the interest rate per annum specified above; with interest being payable on _____, 2018 and semiannually thereafter on each August 1 and February 1, except that if the date of authentication of this Bond is later than _____, 2018, such principal amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date (hereinafter defined) but on or before the next following interest payment date, in which case such principal amount shall bear interest from such next following interest payment date.

THE PRINCIPAL OF AND INTEREST ON this Bond are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Bond shall be paid to the registered owner hereof upon presentation and surrender of this Bond at maturity or upon the date fixed for its redemption prior to maturity, at the principal corporate trust office of _____, _____, _____, which is the "Paying Agent/Registrar" for this Bond. The payment of interest on this Bond shall be made by the Paying Agent/Registrar to the registered owner hereof on the interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the Issuer required by the Ordinance authorizing the issuance of the Bonds (the "Bond Ordinance") to be on deposit with the Paying Agent/ Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the registered owner hereof, at the address of the registered owner, as it appeared on the 15th day of the month next preceding such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar as hereinafter described. In addition, interest may be paid by electronic or wire transfer, or by such other method acceptable to the Paying Agent/Registrar

requested by, and at the risk and expense of, the registered owner, however, if the Bond is owned by the Texas Water Development Board, there will be no charge, and payment of principal shall be made by federal funds wire transfer. Any accrued interest due upon the redemption of this Bond prior to maturity as provided herein shall be paid to the registered owner at the principal corporate trust office of the Paying Agent/Registrar upon presentation and surrender of this Bond for redemption and payment at the principal corporate trust office of the Paying Agent/Registrar. The Issuer covenants with the registered owner of this Bond that on or before each principal payment date, interest payment date, and accrued interest payment date for this Bond, it will make available to the Paying Agent/Registrar, from the "Interest and Sinking Fund" created by the Bond Ordinance, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on the Bonds, when due.

IF THE DATE for the payment of the principal of or interest on this Bond shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the City where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

THIS BOND is one of an issue of Bonds initially dated _____, 2018, authorized in accordance with the Constitution and laws of the State of Texas in the principal amount of \$_____ for the purpose of improving and extending the Issuer's Waterworks and Sewer System, to-wit: improvements and extensions to the waterworks system.

ON FEBRUARY 1, 20___, or any date thereafter, the unpaid installments of principal of this Bond may be prepaid or redeemed prior to their scheduled due dates, at the option of the Issuer, with funds derived from any available source, as a whole, or in part, and, if in part, the Issuer shall select, in inverse order of maturity and designate the maturity, or maturities, and the amount that is to be redeemed, and if less than a whole maturity is to be called, the Issuer shall direct the Paying Agent/Registrar to call by lot (provided that a portion of this Bond may be redeemed only in an integral multiple of \$5,000), at the redemption price of the principal amount, plus accrued interest to the date fixed for prepayment or redemption.

AT LEAST 30 days prior to the date fixed for any such prepayment or redemption a written notice of such prepayment or redemption shall be mailed by the Paying Agent/Registrar to the registered owner hereof. By the date fixed for any such prepayment or redemption due provision shall be made by the Issuer with the Paying Agent/Registrar for the payment of the required prepayment or redemption price for this Bond or the portion hereof which is to be so prepaid or redeemed, plus accrued interest thereon to the date fixed for prepayment or redemption. If such written notice of prepayment or redemption is given, and if due provision for such payment is made, all as provided above, this Bond, or the portion thereof which is to be so prepaid or redeemed, thereby automatically shall be treated as prepaid or redeemed prior to its scheduled due date, and shall not bear interest after the date fixed for its prepayment or redemption, and shall not be regarded as being outstanding except for the right of the registered owner to receive the prepayment or redemption price plus accrued interest to the date fixed for prepayment or redemption from the Paying Agent/Registrar out of the funds provided for such payment. The Paying Agent/Registrar shall record in the Registration Books all such prepayments or redemptions of principal of this Bond or any portion hereof.

THIS BOND OR ANY PORTION OR PORTIONS HEREOF IN ANY INTEGRAL MULTIPLE OF \$5,000 may be assigned and shall be transferred only in the Registration Books of the Issuer kept by the Paying Agent/Registrar acting in the capacity of registrar for the Bonds, upon the terms and conditions set

forth in the Bond Ordinance. Among other requirements for such assignment and transfer, this Bond must be presented and surrendered to the Paying Agent/Registrar, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Paying Agent/Registrar, evidencing assignment of this Bond or any portion or portions hereof in any integral multiple of \$5,000 to the assignee or assignees in whose name or names this Bond or any such portion or portions hereof is or are to be transferred and registered. The form of Assignment printed or endorsed on this Bond shall be executed by the registered owner or its duly authorized attorney or representative, to evidence the assignment hereof. A new Bond or Bonds payable to such assignee or assignees (which then will be the new registered owner or owners of such new Bond or Bonds), or to the previous registered owner in the case of the assignment and transfer of only a portion of this Bond, may be delivered by the Paying Agent/Registrar in conversion of and exchange for this Bond, all in the form and manner as provided in the next paragraph hereof for the conversion and exchange of other Bonds. The Issuer shall pay the Paying Agent/Registrar's standard or customary fees and charges for making such transfer, but the one requesting such transfer shall pay any taxes or other governmental charges required to be paid with respect thereto. The Paying Agent/Registrar shall not be required to make transfers of registration of this Bond or any portion hereof (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or, (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date. The registered owner of this Bond shall be deemed and treated by the Issuer and the Paying Agent/Registrar as the absolute owner hereof for all purposes, including payment and discharge of liability upon this Bond to the extent of such payment, and the Issuer and the Paying Agent/Registrar shall not be affected by any notice to the contrary.

ALL BONDS OF THIS SERIES are issuable solely as fully registered bonds, without interest coupons, in the denomination of any integral multiple of \$5,000. As provided in the Bond Ordinance, this Bond, or any unredeemed portion hereof, may, at the request of the registered owner or the assignee or assignees hereof, be converted into and exchanged for a like aggregate principal amount of fully registered bonds, without interest coupons, payable to the appropriate registered owner, assignee, or assignees, as the case may be, having the same maturity date, and bearing interest at the same rate, in any denomination or denominations in any integral multiple of \$5,000 as requested in writing by the appropriate registered owner, assignee, or assignees, as the case may be, upon surrender of this Bond to the Paying Agent/Registrar for cancellation, all in accordance with the form and procedures set forth in the Bond Ordinance. The Issuer shall pay the Paying Agent/Registrar's standard or customary fees and charges for transferring, converting, and exchanging any Bond or any portion thereof, but the one requesting such transfer, conversion, and exchange shall pay any taxes or governmental charges required to be paid with respect thereto as a condition precedent to the exercise of such privilege of conversion and exchange. The Paying Agent/Registrar shall not be required to make any such conversion and exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or, (ii) with respect to any Bond or portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

IN THE EVENT any Paying Agent/Registrar for the Bonds is changed by the Issuer, resigns, or otherwise ceases to act as such, the Issuer has covenanted in the Bond Ordinance that it promptly will appoint a competent and legally qualified substitute therefor, and promptly will cause written notice thereof to be mailed to the registered owners of the Bonds.

IT IS HEREBY certified, recited, and covenanted that this Bond has been duly and validly authorized, issued, sold, and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the authorization, issuance, and delivery of this Bond have been

performed, existed, and been done in accordance with law, that this Bond is a special obligation; and that the interest on and principal of this Bond, together with other outstanding revenue bonds, if any, are payable from and secured by a first lien on and pledge of the Pledge Revenues, as defined by the Bond Ordinance and which revenues include the Net Revenues of said Issuer's Waterworks and Sewer System.

THE ISSUER has reserved the right, subject to the restrictions stated and adopted by reference in the Ordinance authorizing this Series of Bonds, to issue additional parity revenue bonds which also may be made payable from, and secured by a lien on and pledge of the aforesaid Net Revenues.

THE OWNER HEREOF shall never have the right to demand payment of this obligation out of any funds raised or to be raised by taxation, or from any source whatsoever other than the aforesaid Net Revenues.

BY BECOMING the registered owner of this Bond, the registered owner thereby acknowledges all of the terms and provisions of the Bond Ordinance, agrees to be bound by such terms and provisions, acknowledges that the Bond Ordinance is duly recorded and available for inspection in the official minutes and records of the governing body of the Issuer, and agrees that the terms and provisions of this Bond and the Bond Ordinance constitute a contract between each registered owner hereof and the Issuer.

IN WITNESS WHEREOF, the Issuer has caused this Bond to be signed with the manual or facsimile signature of the Mayor of the Issuer and countersigned with the manual or facsimile signature of the City Secretary of the Issuer, and has caused the official seal of the Issuer to be duly impressed, or placed in facsimile, on this Bond.

City Secretary

Mayor

(CITY SEAL)

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FORM OF PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

(To be executed if this Bond is not accompanied by an executed Registration Certificate of the Comptroller of Public Accounts of the State of Texas)

It is hereby certified that this Bond has been issued under the provisions of the Bond Ordinance described in the text of this Bond; and that this Bond has been issued in conversion or replacement of, or in exchange for, a bond, bonds, or a portion of a bond or bonds of a Series which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

Dated

_____, _____

By _____
Authorized Representative

FORM OF ASSIGNMENT:

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned registered owner of this Bond, or duly authorized representative or attorney thereof, hereby assigns this Bond to

(Assignee's Social Security or Tax
Payer Identification Number)

(Print or type Assignee's Name and
Address Including Zip Code)

and hereby irrevocably constitutes and appoints _____
attorney, to transfer the registration of this Bond on the Paying Agent/Registrar's Registration Books with full
power of substitution in the premises.

Dated _____

NOTICE: This signature must be guaranteed by a member of the New York Stock Exchange or a commercial bank or trust company.

NOTICE: This signature must correspond with the name of the Registered Owner appearing on the face of this Bond in every particular without alteration or enlargement or any change whatsoever.

Section 8. DEFINITIONS. For all purposes of this Ordinance, except as otherwise expressly provided or unless the context otherwise requires, terms have the meanings assigned to them in this section.

"Additional Bonds" has the meaning assigned thereto in Section 26 of this Ordinance.

"Authorized Representative" means any of the following: the Mayor, the City Secretary, the City Manager, the Director of Finance, and any other officer or employee of the City appointed to serve as an "Authorized Representative" hereunder.

"Annual Debt Service Requirements" means, as of the date of calculation, the principal of and interest on the obligations coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand, to the extent permitted by law, conditioned upon default by the City during such fiscal year for which the annual debt service is being calculated, or be payable in respect of any required purchase of such Debt by the City) in such Fiscal Year. "Average Annual Debt Service Requirements" means that average amount which, at the time of computation, will be required to pay the Annual Debt Service Requirements when due (either at Stated Maturity or mandatory redemption) and derived by dividing the total of such Annual Debt Service Requirements by the number of Fiscal Years then remaining before Stated Maturity of such obligations. For the purposes of this definition, a fractional period of a Fiscal Year shall be treated as an entire Fiscal Year. Capitalized interest payments provided from bond proceeds, accrued interest on any Debt, and interest earnings thereon shall be excluded in making such computation.

"Bond" or "Bonds" means any or all of the City of McAllen, Texas Waterworks and Sewer System Revenue Bonds, Series 2018.

"Bonds Similarly Secured" means the Previously Issued Bonds, the Bonds, and any Additional Bonds which are secured on equal dignity by a first lien on and pledge of the Net Revenues.

"City" and "Issuer" mean the City of McAllen, Texas, and where appropriate, the City Commission.

"Debt" and "Debt of the City payable from Pledged Revenues" means:

(1) all indebtedness payable from Pledged Revenues and/or Net Revenues incurred or assumed by the City for borrowed money and all other financing obligations of the System payable from Pledged Revenues and/or Net Revenues that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and

(2) all other indebtedness payable from Pledged Revenues and/or Net Revenues (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction or improvement of property or capitalized lease obligations pertaining to the System that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise.

For the purpose of determining Debt, there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository (a) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (b) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the System in prior Fiscal Years.

"Depository" means one or more official depository banks of the City.

"Designated Financial Officer" means the chief financial officer of the City, or such other financial or accounting official of the City so designated by the City Commission.

"Executive Administrator" means the Executive Administrator of the Texas Water Development Board.

"Fiscal Year" or "Year" means the twelve-month accounting period used by the City in connection with the operation of the System, currently ending on September 30 of each year, which may be any twelve consecutive month period established by the City, but in no event may the Fiscal Year be changed more than one time in any three calendar year period.

"Funded Debt" means all Bonds Similarly Secured created or assumed by the City that mature by their terms (in the absence of the exercise of any earlier right of demand), or that are renewable at the option of the City to a date, more than one year after the original creation or assumption of such Debt by the City.

"Government Obligations" shall mean (i) direct non-callable obligations of the United States, including obligations that are unconditionally guaranteed by, the United States of America; (ii) non-callable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; or (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

"Gross Revenues" and "Gross Revenues of the City's Waterworks and Sewer System" means all revenues, income and receipts of every nature derived or received by the City from the operation and ownership of the System.

"Holder" or "Holders" means the registered owner, whose name appears in the Security Register, for any Bonds Similarly Secured.

"Independent Engineer" means an individual, firm or corporation engaged in the engineering profession, being a registered professional engineer under the laws of the State of Texas, having specific experience with respect to water, wastewater, reuse water and/or storm water drainage systems similar to the System.

"Interest and Sinking Fund" means the special Fund created, established and maintained by the City and continued under the provisions of Sections 10 and 11 of this Ordinance.

"MSRB" means the Municipal Securities Rulemaking Board.

"Maintenance and Operating Expenses" means the reasonable and necessary expenses of operation and maintenance of the System as required by Section 1502.056, Texas Government Code, as amended, including all salaries, labor, materials, repairs and extensions necessary to render efficient service (but only such repairs and extensions as, in the judgment of the governing body of the City, are necessary to keep the System in operation and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or conditions which would otherwise impair the Bonds Similarly Secured), and all payments under contracts now or hereafter defined as operating expenses by the Legislature of Texas. Depreciation shall never be considered as a Maintenance and Operation Expense.

"Maturity" means, when used with respect to any Debt, the date on which the principal of such Debt or any installment thereof becomes due and payable as therein provided, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption, or otherwise.

"Maximum Annual Debt Service Requirements" means the greatest requirements of Annual Debt Service Requirements (taking into account all mandatory principal redemption requirements) scheduled to occur in any future Fiscal Year or in the then current Fiscal Year for the particular obligations for which such calculation is made. Capitalized interest payments provided from Debt proceeds, accrued interest on any Debt, and interest earnings thereon shall be excluded in making such computation.

"Net Revenues" and "Net Revenues of the City's Waterworks and Sewer System" mean all Gross Revenues after deducting therefrom an amount equal to the current expenses of operation and maintenance of the System, including all salaries, labor, materials, repairs, and extensions necessary to render efficient service, provided, however, that only such repairs and extensions, as in the judgment of the City Commission, reasonably and fairly exercised by the adoption of appropriate resolutions, are necessary to keep the System in operation and render adequate service to said Issuer and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair the Previously Issued Bonds, the Bonds, or Additional Bonds, shall be deducted in determining "Net Revenues". Payments required to be made by the Issuer for water supply or water facilities, sewer services or sewer facilities, fuel supply, which payments under law constitute and be regarded as expenses of operation and maintenance of the System under this Ordinance. Depreciation and amortization shall not constitute or be regarded as expenses of operation and maintenance of the System.

"Ordinance" means this ordinance.

"Outstanding", when used with respect to Bonds Similarly Secured, means, as of the date of determination, all Bonds Similarly Secured theretofore delivered under this Ordinance and any ordinance authorizing Additional Bonds, except:

- (1) Bonds Similarly Secured theretofore cancelled and delivered to the City or delivered to the Paying Agent/Registrar for cancellation;
- (2) Bonds Similarly Secured deemed paid pursuant to the provisions of Section 33 of this Ordinance or any comparable section of any ordinance authorizing Additional Bonds;

- (3) Bonds Similarly Secured upon transfer of or in exchange for and in lieu of which other Bonds Similarly Secured have been authenticated and delivered pursuant to this Ordinance and any ordinance authorizing Additional Bonds; and

"Paying Agent/Registrar" shall have the meaning set forth in Section 6(a) hereof.

"Permitted Investments" means, qualified investments as long as permitted under the Public Funds Investments Act, Chapter 2256, Texas Government Code, as amended.

"Pledged Revenues" means (1) the Net Revenues, plus (2) any additional revenues, income, receipts, or other resources, including, without limitation, any grants, donations or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which hereafter are pledged by the City to the payment of the Bonds Similarly Secured, and excluding those revenues excluded from Gross Revenues.

"Previously Issued Bonds" means the outstanding and unpaid obligations of the Issuer that are payable, in whole or in part, from and equally and ratably secured by a first lien on and pledge of the Net Revenues of the System and designated as follows:

Waterworks and Sewer System Revenue Bonds, Series 2009
Waterworks and Sewer System Revenue Bonds, Series 2012
Waterworks and Sewer System Revenue Bonds, Series 2013
Waterworks and Sewer System Revenue Bonds, Series 2013-A
Waterworks and Sewer System Revenue Bonds, Series 2013-B
Waterworks and Sewer System Revenue Refunding Bonds, Series 2015
Waterworks and Sewer System Revenue Bonds, Series 2015
Waterworks and Sewer System Revenue Refunding Bonds, Series 2016
Waterworks and Sewer System Revenue Bonds, Series 2016

"Project" means the acquisition, improvements, repairs and expansion of the City's Sewer System.

"Prudent Utility Practice" means any of the practices, methods and acts, in the exercise of reasonable judgment, in the light of the facts, including but not limited to the practices, methods and acts engaged in or previously approved by a significant portion of the public utility industry, known at the time the decision was made, that would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather is a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. In the case of any facility included in the System which is operated in common with one or more other entities, the term Prudent Utility Practice, as applied to such facility, shall have the meaning set forth in the agreement governing the operation of such facility.

"Rating Agency" means any nationally recognized securities rating agency which has assigned, at the request of the City, a rating to the Bonds Similarly Secured.

"Record Date" as used in connection with any bond or obligation, shall mean the close of business on the last or 15th business day of the month next preceding each Interest Payment Date.

"Required Reserve Fund Deposits" means the deposits and credits, if any, required to be made to the Reserve Fund pursuant to the provisions of Section 14 of this Ordinance.

"Rule" means SEC Rule 15c2-12, as amended from time to time.

"SEC" means the United States Securities and Exchange Commission.

"Special Record Date" shall be fifteen days prior to the scheduled payment date of past due interest.

"Special Project" means, to the extent permitted by law, any waterworks, sanitary sewer, wastewater reuse or municipal drainage system property, improvement or facility declared by the City not to be part of the System, for which the costs of acquisition, construction and installation are paid from proceeds of a financing transaction other than the issuance of bonds payable from ad valorem taxes, Pledged Revenues or Net Revenues and for which all maintenance and operation expenses are payable from sources other than ad valorem taxes, Pledged Revenues or Net Revenues, but only to the extent that and for so long as all or any part of the revenues or proceeds of which are or will be pledged to secure the payment or repayment of such costs of acquisition, construction and installation under such financing transaction.

"Stated Maturity" means the annual principal payments of the Bonds Similarly Secured payable on the respective dates set forth in the ordinances which authorize the issuance of such Bonds Similarly Secured.

"State" means the State of Texas.

"Subordinate Lien Obligations" means (i) any bonds, notes, warrants, certificates of obligation or other Debt issued by the City that are payable, in whole or in part, from and equally and ratably secured by a lien on and pledge of the Net Revenues, such pledge being subordinate and inferior to the lien on and pledge of the Net Revenues that are or will be pledged to the payment of any Bonds Similarly Secured and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by a lien on and pledge of the Net Revenues on a parity with the Subordinate Lien Obligations.

"Surety Bond" shall mean a reserve fund surety bond issued by a bond insurer guaranteeing certain payments into the Reserve Fund as provided in Section 14 hereof and subject to the provisions and limitations set forth in the surety bond.

"Surety Policy" shall mean a surety bond, insurance policy, letter of credit, or other agreement or instrument whereby the issuer is obligated to provide funds up to and including the maximum amount of debt service on the Bonds and under the conditions specified in such agreement or instrument.

"System" shall mean (1) the Issuer's entire existing waterworks and sewer system, together with all future extensions, improvements enlargements, and additions thereto, and all replacements thereof, and (2) any other related facilities, all or any part of the revenues or income from which, in the future, at the option of the Issuer, and in accordance with law, become "Gross Revenues" as heretofore defined; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term System shall not mean any water, sewer, or other facilities of any kind which are declared not to be a part of the System, and which are acquired or constructed by the Issuer with the proceeds from the issuance of

"Special Facilities Bonds", which are hereby defined as being special revenue obligations of the Issuer which are not payable from or secured by any Gross Revenues, but which are secured by and payable from liens on and pledges of any other revenues, sources, or payments, including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities; and such revenues, sources, or payments shall not be considered as or constitute Gross Revenues of the System, unless and to the extent otherwise provided in the ordinance or ordinances authorizing the issuance of such "Special Facilities Bonds".

Section 9. PLEDGE OF PLEDGED REVENUES. The City hereby covenants and agrees that the Pledged Revenues are hereby irrevocably pledged to the payment of principal and interest and security of the Bonds Similarly Secured, including the establishment and maintenance of the special funds created, established and maintained for the payment and security thereof, all as hereinafter provided; and it is hereby ordained that the Bonds Similarly Secured, and the interest thereon, shall constitute a first lien on and pledge of the Pledged Revenues and be valid and binding without any physical delivery thereof or further act by the City, and the lien created hereby on the Pledged Revenues for the payment and security of the Bonds Similarly Secured, including the establishment and maintenance of the special funds created, established and maintained for the payment and security thereof, and the amounts payable from such funds shall be superior to the lien on and pledge of the Net Revenues securing payment of any Subordinate Lien Obligations hereafter issued by the City.

Section 10. SPECIAL FUNDS. The below listed special Funds have been created and established and shall be maintained on the books of the City, so long as any of the Bonds Similarly Secured are outstanding and unpaid:

(a) City of McAllen, Texas Waterworks and Sewer System Fund, hereinafter called the "System Fund";

(b) City of McAllen, Texas Waterworks and Sewer System Revenue Bonds Interest and Sinking Fund, hereinafter called the "Interest and Sinking Fund";

(c) City of McAllen, Texas Waterworks and Sewer System Reserve Fund, hereinafter called the "Reserve Fund".

If such funds shall be sub-accounts of the City's General Fund held by the City's depository, and, as such, not held in separate bank accounts, such treatment shall not constitute a commingling of the monies in such funds or of such funds and the City shall keep full and complete records indicating the monies and investments credited to each of such funds.

Section 11. SYSTEM FUND; INTEREST AND SINKING FUND; RESERVE FUND; DEPOSIT OF NET REVENUES. There has been created and there shall be established and maintained on the books of the City, and accounted for separate and apart from all other funds of the City, a special fund to be entitled the City of McAllen Waterworks and Sewer System Fund" (the "System Fund"). All Gross Revenues shall be deposited and credited to the System Fund immediately as collected and received, unless otherwise provided for in this Ordinance. Current expenses of the maintenance and operation of the System shall be paid from such Gross Revenues credited to the System Fund as a first charge against same. Before making any deposits hereinafter required to be made from the System Fund, the Issuer shall retain in the System Fund at all times an amount equal at least to one-sixth of the amount budgeted for the then current fiscal year for the current operation and maintenance expenses of the System.

For the purpose of paying the principal and interest on all Bond Similarly Secured, there has been created and there shall be established and maintained on the books of the City, and accounted for separate and apart from all other funds of the City, a separate fund entitled the "City of McAllen, Texas Waterworks and Sewer System Interest and Sinking Fund (the "Interest and Sinking Fund").

For the purpose of paying the principal of and interest on all Bonds Similarly Secured, when and to the extent the amounts in the Interest and Sinking Fund available for such payment are insufficient for such purpose, there has been created and there shall be established and maintained on the books of the City, and accounted for separate and apart from all other funds of the City, a separate fund to be entitled "City of McAllen Waterworks and Sewer System Reserve Fund" (the "Reserve Fund"). Net Revenues shall be credited to or deposited in the Interest and Sinking Fund, the Reserve Fund and other funds when and as required by the ordinances authorizing the issuance of Bonds Similarly Secured.

Section 12. FLOW OF FUNDS. All Gross Revenues deposited and credited to the System Fund shall be pledged and appropriated subject to Section 9, to the extent required, for the following uses and in the order of priority shown:

FIRST: to the payment of the amounts required to be deposited and credited to the Interest and Sinking Fund created and established for the payment of the Bonds Similarly Secured, the Bonds, and any Additional Bonds issued by the City as the same become due and payable, and other Bonds Similarly Secured-related payments, including bank liquidity fees and remarketing fees, if any;

SECOND: pro rata to the payment of the amounts required to be deposited and credited (i) to the Reserve Fund created and established to maintain the Required Reserve Amount in accordance with the provisions of this Ordinance, including amounts owed with respect to any Surety Bond, if any, to restore the Required Reserve Amount and (ii) to each other reserve fund created and established to maintain a reserve in accordance with the provisions of the ordinances relating to the issuance of any Bonds Similarly Secured and Additional Bonds hereafter issued by the City; and

THIRD: for all payments made with respect to any Subordinate Lien Obligations, which the Issuer has specifically reserved the right to issue under Section 28 of this Ordinance, and then for any other lawful purpose.

Section 13. INTEREST AND SINKING FUND REQUIREMENTS. On or before December 31, 2016, and on or before the 30th day of each and every month thereafter, the Issuer shall cause to be deposited to the credit of the Interest and Sinking Fund, in approximately equal monthly payments, amounts sufficient, together with any other funds on hand therein, to pay all of the interest or principal and interest coming due on the Bonds Similarly Secured on the next succeeding interest payment date.

The required monthly deposits and credits to the Interest and Sinking Fund shall continue to be made as hereinabove provided until such time as (i) the total amount on deposit in and credited to the Interest and Sinking Fund is equal to the amount required to fully pay and discharge all outstanding Bonds Similarly Secured (principal, premium, if any, and interest) or (ii) the Bonds Similarly Secured are no longer outstanding. Amounts on deposit in and credited to the Reserve Fund and each reserve fund established for any series of Bonds Similarly Secured shall, for purposes of this test, be deemed to be on deposit in and credited to the Interest and Sinking Fund for the sole benefit of the Bonds or the specific series of Bonds Similarly Secured for which such reserve fund was created, as the case may be. Amounts credited to the

Reserve Fund and to each Reserve Fund established for any particular series of Bonds Similarly Secured by virtue of a Surety Bond, with respect to the Bonds, or any instrument comparable to a Surety Bond held in such Reserve Fund shall not be deemed to be on deposit in and credited to the Interest and Sinking fund for the purpose specified in (ii) above.

Accrued interest and capitalized interest, if any, received from the purchaser of any Bonds Similarly Secured shall be taken into consideration and reduce the amount of the deposits and credits hereinabove required into the Interest and Sinking Fund.

Section 14. RESERVE FUND; RESERVE FUND SURETY INSURER; MUNICIPAL BOND INSURANCE. (a) In connection with the issuance of the Previously Issued Bonds identified in the definition thereof as the "Series 2009 Bonds" (which were purchased and currently are held by the Texas Water Development Board), the Issuer determined and committed to fund the Reserve Fund, for the benefit of the holder of the Series 2009 Bonds in the amount of the average annual principal and interest requirements of such Series 2009 Bonds. Section 26(c) of the ordinance which authorized the Series 2009 Bonds permits the Issuer, in connection with the issuance of a series of Additional Bonds (such as the Bonds authorized by this Ordinance), to create a reserve fund "for the purpose of securing that particular issue or series of Additional Bonds or any specific group of issues or series of Additional Bonds" Because the Series 2009 Bonds and the Previously Issued Bonds identified in the definition thereof as the "Series 2012 Bonds" were going to be owned by the same owner (i.e., the Texas Water Development Board), the Issuer, in the Ordinance authorizing the Series 2012 Bonds, provided that the Reserve Fund that was funded in connection with the Series 2009 Bonds to also jointly secure the Series 2012 Bonds and the Texas Water Development Board consented to such joint security. Accordingly, upon the issuance of the Series 2012 Bonds, the average annual principal and interest requirements for the Series 2009 Bonds and the Series 2012 Bonds equaled \$1,365,872, which amount was \$49,705 greater than the amount required to be accumulated in the Reserve Fund when the Series 2009 Bonds initially were issued. In order to accumulate this required amount of cash and investments in the Reserve Fund within 60 months after the issuance of the Series 2012 Bonds, the Issuer began making monthly cash deposits in the amount of \$24,009 on the 30th day of each month, commencing on August 30, 2012 through July 30, 2014, and thereafter on the 30th day of each month in the amount of \$21,937 for the next 36 monthly payments.

Because the Series 2009 Bonds, the Series 2012 Bonds, and the Previously Issued Bonds identified in the definition thereof as the "Series 2013 Bonds," the "Series 2013-A Bonds" and the "Series 2013-B Bonds" were going to be owned by the same owner (i.e., the Texas Water Development Board), the Issuer, in the Ordinances authorizing the Series 2013 Bonds, the Series 2013-A Bonds and the Series 2013-B Bonds provided that the Reserve Fund that was funded in connection with the Series 2009 Bonds and the Series 2012 Bonds would also jointly secure the Series 2013 Bonds, the Series 2013-A Bonds and the Series 2013-B Bonds, and the Texas Water Development Board consented to such joint security. Accordingly, upon the issuance of the Series 2013 Bonds, the Series 2013-A Bonds and the Series 2013-B Bonds, the average annual principal and interest requirements for the Series 2009 Bonds, the Series 2012 Bonds, the Series 2013 Bonds, and Series 2013-A Bonds and the Series 2013-B Bonds equaled \$1,635,016, which amount was \$267,215 greater than the amount required to be accumulated in the Reserve Fund when the Series 2012 Bonds initially were issued. In order to accumulate this required amount of cash and investments in the Reserve Fund within 60 months following the issuance of the Series 2013 Bonds, the Series 2013-A Bonds and the Series 2013-B Bonds, the Issuer began making additional monthly cash deposits (i.e., in addition to the monthly deposits described in the preceding paragraph) in the amount of not less than (i) \$6,344.73 for the first 24 months after the issuance of the Series 2013 Bonds, the Series 2013-A Bonds and the Series 2013-B Bonds, and (ii) \$3,192.82 for the following 36 months.

Upon the issuance of the Series 2015 Bonds, such bonds also to be owned by the Texas Water Development Board and to be jointly secured by the reserve fund securing the Series 2009 Bonds, the Series 2012 Bonds, the Series 2013 Bonds, the Series 2013-A Bonds and the Series 2013-B Bonds, the average annual principal and interest requirements for the Series 2009 Bonds, the Series 2012 Bonds, the Series 2013 Bonds, the Series 2013-A Bonds, the Series 2013-B Bonds and the Series 2015 Bonds was equal to **\$3,117,990** and the amount that was be on deposit in the Reserve Fund on the date of issuance of the Series 2015 Bonds was **\$1,400,827**. Accordingly, the aggregate amount required to be deposited into the Reserve Fund following the issuance of the Series 2015 Bonds in order to fully fund the Reserve Fund to the Required Reserve Amount within five years from the date of issuance of the Series 2015 Bonds was **\$1,717,163.23**. In order to accumulate this required amount of cash and investments in the Reserve Fund within 60 months after the issuance of the Series 2015 Bonds, the Issuer began making monthly cash deposits in the amount not less than **\$34,923.19** on or before the 30th day of each month, commencing on May 31, 2015 through September 30, 2015, and thereafter on the 30th day of each month in the amount of not less than **\$28,619.39** until the amount on deposit in the Reserve Fund was equal to not less than the Required Reserve Amount.

Upon the issuance of the Series 2016 Bonds, such bonds also to be owned by the Texas Water Development Board and to be jointly secured by the reserve fund securing the Series 2009 Bonds, the Series 2012 Bonds, the Series 2013 Bonds, the Series 2013-A Bonds, the Series 2013-B Bonds, and the Series 2015 Bonds, the average annual principal and interest requirements for the Series 2009 Bonds, the Series 2012 Bonds, the Series 2013 Bonds, the Series 2013-A Bonds, the Series 2013-B Bonds and the Series 2015 Bonds was equal to **\$3,163,011** and the amount that was be on deposit in the Reserve Fund on the date of issuance of the Series 2016 Bonds was **\$2,025,422**. Accordingly, the aggregate amount required to be deposited into the Reserve Fund following the issuance of the Series 2016 Bonds in order to fully fund the Reserve Fund to the Required Reserve Amount within five years from the date of issuance of the Series 2015 Bonds was **\$1,137,589**. In order to accumulate this required amount of cash and investments in the Reserve Fund within 60 months after the issuance of the Bonds, and notwithstanding anything set forth in the preceding two paragraphs with respect to monthly payment amounts, the Issuer shall begin making monthly cash deposits in the amount not less than **\$18,959.82** on or before the 30th day of each month, commencing on January 31, 2017, until the amount on deposit in the Reserve Fund is equal to not less than the Required Reserve Amount.

Upon the issuance of the Bonds, also to be owned by the Texas Water Development Board and to be jointly secured by the reserve fund securing the Series 2009 Bonds, the Series 2012 Bonds, the Series 2013 Bonds, the Series 2013-A Bonds, the Series 2013-B Bonds, the Series 2015 Bonds, and the Series 2016 Bonds, the average annual principal and interest requirements for the Series 2009 Bonds, the Series 2012 Bonds, the Series 2013 Bonds, the Series 2013-A Bonds, the Series 2013-B Bonds, the Series 2015 Bonds, the Series 2016 Bonds and the Bonds authorized by this Ordinance will be equal to \$_____ (the "Required Reserve Amount"), and the amount that will be on deposit in the Reserve Fund on the date of issuance of the Bonds will be not less than \$_____. Accordingly, the aggregate amount required to be deposited into the Reserve Fund following the issuance of the Bonds in order to fully fund the Reserve Fund to the Required Reserve Amount within five years from the date of issuance of the Bonds is \$_____. In order to accumulate this required amount of cash and investments in the Reserve Fund within 60 months after the issuance of the Bonds, and notwithstanding anything set forth in the preceding three paragraphs with respect to monthly payment amounts, the Issuer shall begin making monthly cash deposits in the amount not less than \$_____ on or before the 30th day of each month, commencing on _____, 2018, until the amount on deposit in the Reserve Fund is equal to not less than the Required Reserve Amount.

After the delivery of any Additional Bonds, the Issuer shall cause the Reserve Fund to be increased, if and to the extent necessary, so that such fund will contain an amount of money and investments equal to the Required Reserve Amount. Any increase in the Required Reserve Amount may be funded from Net Revenues or from proceeds from the sale of any Additional Bonds, or any other available source or combination of sources. All or any part of the Required Reserve Amount not funded initially and immediately after the delivery of any installment or issue of Additional Bonds shall be funded, within not more than five years from the date of such delivery by deposits of Net Revenues in approximately equal monthly installments on or before the 30th day of each month. Principal amounts of the Previously Issued Bonds, the Bonds and any Additional Bonds which must be redeemed pursuant to any applicable mandatory redemption provisions shall be deemed to be maturing amounts of principal for the purpose of calculating principal and interest requirements on such Bonds. When and so long as the amount in the Reserve Fund is not less than the Required Reserve Amount no deposits shall be made to the credit of the Reserve Fund; but when and if the Reserve Fund at any time contains less than the Required Reserve Amount, then the Issuer shall transfer from Net Revenues in the System Fund, and deposit to the credit of the Reserve Fund, monthly, on or before the 30th day of each month, a sum equal to 1/60th of the Required Reserve Amount, until the Reserve Fund is restored to the Required Reserve Amount. The Issuer shall cause all interest and income derived from the deposit or investment of the Reserve Fund to be deposited to the credit of the Interest and Sinking Fund.

(b) The Issuer, at its option and consistent with the provisions of this Section, may fund the Required Reserve Amount by purchasing a Surety Policy that will unconditionally obligate the insurance company or other entity to pay all, or any part thereof, of the Required Reserve Amount in the event funds on deposit in the Reserve Fund are not sufficient to pay the debt service requirements on the Bonds Similarly Secured. If such Surety Policy constitutes a "Credit Agreement" pursuant to Chapter 1371 of the Government Code, the City shall submit, pursuant to and for so long as required by Section 1371.057 of the Government Code or other applicable State of Texas law provision, such Credit Agreement for review and approval by the Texas Attorney General. All ordinances adopted after the date hereof authorizing the issuance of Additional Bonds shall contain a provision to this effect. Section 14 (c) and (d) of this Ordinance contains certain provisions relating to the Surety Bond. The Issuer reserves the right to use Gross Revenues of the System to fund the payment of (1) periodic premiums on the Surety Policy as a part of the payment of Maintenance and Operating Expenses, and (2) any repayment obligation incurred by the Issuer (including interest) to the issuer of the Surety Policy, the repayment of which will result in the reinstatement of such Surety Policy, prior to making payments required to be made to the Reserve Fund pursuant to the provisions of this Section to restore the balance in such fund to the Required Reserve Amount for the Bonds Similarly Secured.

(c) In the event an insurance policy issued to satisfy all or part of the Issuer's obligation with respect to the Reserve Fund causes the amount then on deposit in the Reserve Fund to exceed the Required Reserve Amount, the Issuer may transfer such excess amount to any fund or account established for the payment of or security for Bonds (including any escrow established for the final payment of any such obligations pursuant to Chapter 1207, as amended, Texas Government Code), or use such excess amount for any lawful purpose now or hereafter provided by law; provided, however, to the extent that such excess amount represents Bond proceeds, then such amount must be transferred to the Interest and Sinking Fund.

(d) As long as the Bonds, or any of them, are owned by the Texas Water Development Board, the Issuer may obtain a future Surety Policy, pursuant to Section 14 (b), only if (i) the financial guarantor meets the Texas Water Development Board's adopted standards and rating criteria, (ii) the Executive Administrator of the Texas Water Development Board is notified in advance of the Issuer's intent to obtain a Surety Policy, (iii) a copy of the proposed Surety Policy is forwarded to Texas Water Development Board staff for review, and (iv) the Executive Administrator of the Texas Water Development Board provides written approval of such Surety Policy.

Section 15. INVESTMENTS; FUNDS SECURED. (a) Money in any Fund established pursuant to this Ordinance or any ordinance authorizing the issuance of Additional Bonds, may, at the option of the Issuer, be placed in time deposits or certificates of deposit secured by obligations of the type hereinafter described, or be invested in Government Obligations (as defined in Section 1 hereof) or obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in obligations of instrumentalities of the United States of America, including, but not limited to, evidences of indebtedness issued, insured, or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, United States Postal Service, Farmers Home Administration, Federal Home Loan Mortgage Association, Small Business Administration, Federal Housing Association, or Participation Certificates in the Federal Assets Financing Trust; provided that all such deposits and investments shall be made in such manner as will, in the opinion of the Issuer, permit the money required to be expended from any Fund to be available at the proper time or times as expected to be needed. Such investments (except United States Treasury Obligations-State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value as of the last day of each fiscal year. Unless otherwise set forth herein, all interest and income derived from such deposits and investments immediately shall be credited to, and any losses debited to, the Fund from which the deposit or investment was made, and surpluses in any Fund shall or may be disposed of as hereinafter provided. Such investments shall be sold promptly when necessary to prevent any default in connection with the Previously Issued Bonds, the Bonds, or Additional Bonds consistent with the ordinances, respectively, authorizing their issuance.

(b) That money in all Funds created by this Ordinance, to the extent not invested, shall be secured in the manner prescribed by law.

Section 16. EXCESS BOND PROCEEDS. Any proceeds of Bonds Similarly Secured not required to effectuate the purposes for which such Bonds Similarly Secured were issued, as provided in the respective ordinances authorizing the issuance of such Bonds Similarly Secured, or for the payment of the costs of issuance of such Bonds Similarly Secured shall be deposited and credited to the Interest and Sinking Fund and shall be taken into consideration and shall reduce the amount of deposits and credits to the Interest and Sinking Fund from the Pledged Revenues or used to redeem or purchase Bonds Similarly Secured.

Section 17. DEFICIENCIES - EXCESS PLEDGED OR NET REVENUES. (a) If on any occasion there shall not be sufficient Pledged Revenues to make the required deposits and credits to the Interest and Sinking Fund and the Reserve Fund, then such deficiency shall be cured as soon as possible from the next available unallocated Net Revenues, or from any other sources available for such purpose, and such deposits and credits shall be in addition to the amounts otherwise required to be deposited and credited to these Funds.

(b) Subject to making the deposits and credits required by this Ordinance, or any ordinances authorizing the issuance of Bonds Similarly Secured, or the payments and credits required by the provisions of the ordinances authorizing the issuance of Subordinate Lien Obligations, the excess Net Revenues may be used for any lawful purpose.

(c) All interest and income derived from such investments (other than interest and income derived from amounts credited to the Interest and Sinking Fund does not contain the Required Reserve Amount) shall be credited to the System Fund semi-annually.

Section 18. PAYMENT OF BONDS AND ADDITIONAL BONDS. While any of the Bonds Similarly Secured are outstanding, the City shall transfer to the respective paying agent/registrars therefor, from funds on deposit in and credited to the Interest and Sinking Fund, and, if necessary, funds on deposit in the Reserve Fund, amounts sufficient to fully pay and discharge promptly the interest on and principal of the Bonds Similarly Secured as shall become due on each interest or principal payment date, or date of redemption of the Bonds Similarly Secured; such transfer of funds must be made in such manner as will cause immediately available funds to be deposited with each respective paying agent/registrars for the Bonds Similarly Secured not later than the business day next preceding the date such payment is due on the Bonds Similarly Secured; provided that funds withdrawn from a reserve fund established for a particular issue or series of Bonds Similarly Secured shall only be used to pay the principal of and interest on such Bonds Similarly Secured. The Paying Agent/Registrar shall destroy all paid Bonds Similarly Secured and furnish the City with an appropriate certificate of cancellation or destruction.

Section 19. RATES AND CHARGES. (a) The City and the Utility will at all times fix, maintain charge, and collect for services rendered by the System, rates and charges which will produce Gross Revenues at least sufficient to pay all expenses of operation and maintenance of the System and to provide an additional amount of Net Revenues to pay promptly all of the principal of and interest on the Bonds Similarly Secured, which amount shall be at least equal to 1.25 times the annual principal and interest requirements for the Bonds Similarly Secured, and to make all deposits now or hereafter required to be made into the Funds established by this Ordinance in connection with the Bonds Similarly Secured.

(b) If the System should become legally liable for any other obligations or indebtedness, the City shall fix, maintain, charge and collect additional rates and charges for services rendered by the System sufficient to establish and maintain funds for the payment thereof.

Section 20. GENERAL COVENANTS. The City and the Utility Board further covenant and agree that in accordance with and to the extent required or permitted by law:

(a) Performance. It will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in any ordinance authorizing the issuance of Bonds Similarly Secured; that it will promptly pay or cause to be paid the principal of and interest on every outstanding Bond Similarly Secured, on the dates and in the places and manner prescribed in such ordinances authorizing the Bonds Similarly Secured; and it will, at the times and in the manner prescribed, deposit and credit or cause to be deposited and credited the amounts required to be deposited and credited to the Interest and Sinking Fund and the Reserve Fund; and any holder of the Bonds Similarly Secured may require the Issuer, its officials, and employees, to carry out, respect, or enforce the covenants and obligations of the ordinances authorizing the issuance of Bonds Similarly Secured, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings, in any court of competent jurisdiction, against the Issuer, its officials, and employees.

(b) City's Legal Authority. The City is a duly created and existing home rule city of the State of Texas, and is duly authorized under the laws of the State of Texas to create and issue the Bonds and Additional Bonds; that all action on its part for the creation and issuance of the Bonds has been duly and effectively taken, and that the Bonds in the hands of the holders thereof are and will be valid and enforceable special obligations of the City in accordance with their terms.

(c) Title. The City has or will obtain lawful title to the lands, buildings, structures and facilities constituting the System, that it warrants that it will defend the title to all the aforesaid lands, buildings, structures and facilities, and every part thereof, for the benefit of the holders of the Bonds Similarly Secured, against the claims and demands of all persons whomsoever, that it is lawfully qualified to pledge the Pledged Revenues to the payment of the Bonds Similarly Secured in the manner prescribed herein, and has lawfully exercised such rights.

(d) Liens. The City will from time to time and before the same become delinquent pay and discharge all taxes, assessments and governmental charges, if any, which shall be lawfully imposed upon it, or the System; it will pay all lawful claims for rents, royalties, labor, materials and supplies which if unpaid might by law become a lien or charge thereon, the lien of which would be prior to or interfere with the liens hereof, so that the priority of the liens granted hereunder shall be fully preserved in the manner provided herein, and it will not create or suffer to be created any mechanic's, laborer's, materialman's or other lien or charge which might or could be prior to the liens hereof, or do or suffer any matter or thing whereby the liens hereof might or could be impaired; provided, however, that no such tax, assessment or charge, and that no such claims which might be used as the basis of a mechanic's, laborer's, materialman's or other lien or charge, shall be required to be paid so long as the validity of the same shall be contested in good faith by the City.

(e) Operation of System: No Free Service. The City will, while the Bonds Similarly Secured are outstanding and unpaid, continuously and efficiently operate the System, and shall maintain the System in good condition, repair and working order, all at reasonable cost. No free service of the System shall be allowed, and should the City or any of its agencies or instrumentalities make use of the services and facilities of the System, payment of the reasonable value shall be made by the City out of funds from sources other than the Gross Revenues of the System, unless made from surplus or excess Pledged Revenues as permitted in Section 10.

(f) Further Encumbrance. While the Bonds Similarly Secured are outstanding and unpaid, it will not additionally encumber the Pledged Revenues in any manner, except as permitted in this Ordinance in connection with Additional Bonds, unless said encumbrance is made junior and subordinate in all respects to the liens, pledges, covenants and agreements of this Ordinance; but the right of the City to issue or incur obligations payable from a subordinate lien on the Pledged Revenues is specifically recognized and retained.

(g) Sale or Disposal of Property. While the Bonds Similarly Secured are outstanding and unpaid, it will not sell, convey, mortgage, encumber, lease or in any manner transfer title to, or otherwise dispose of the System, or any significant or substantial part thereof; provided that whenever the City deems it necessary to dispose of any other property, machinery, fixtures or equipment, it may sell or otherwise dispose of such property, machinery, fixtures or equipment when it has made arrangements to replace the same or provide substitutes therefore, unless it is determined that no such replacement or substitute is necessary.

(h) Insurance. (1) It shall cause to be insured such parts of the System as would usually be insured by municipal corporations operating like properties, with a responsible insurance company or companies, against risks, accidents or casualties against which and to the extent insurance is usually carried by municipal corporations operating like properties, including, to the extent reasonably obtainable, fire and extended coverage insurance, insurance against damage by floods, and use and occupancy insurance. Public liability and property damage insurance shall also be carried unless the City Attorney of the City gives a written opinion to the effect that the City is not liable for claims which would be protected by such insurance. At any time while any contractor engaged in construction work shall be fully responsible therefor, the City shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate

insurance. All such policies shall be open to the inspection of the Holders and their representatives at all reasonable times. Upon the occurrence of any loss or damage covered by insurance from one or more of said causes, the City shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the City. The proceeds of insurance covering such property are hereby pledged as security for the Bonds Similarly Secured and, together with any other funds necessary and available for such purpose, shall be used forthwith by the City for repairing the property damaged or replacing the property destroyed; provided, however, that if said insurance proceeds and other funds are insufficient for such purpose, then said insurance proceeds pertaining to the System shall be deposited in a special and separate trust fund, at an official depository of the City, to be designated the Insurance Account. The Insurance Account shall be held until such time as the foregoing clauses (i) and/or (ii) can be complied with, or until other funds become available which, together with the Insurance Account, will be sufficient to make the repairs or replacements originally required, whichever of said events occurs first.

(2) The foregoing provisions of (i) above notwithstanding, the City shall have authority to enter into coinsurance or similar plans where risk of loss is shared in whole or in part by the City.

(3) The annual audit hereinafter required shall contain a section commenting on whether or not the City has complied with the requirements of this Section with respect to the maintenance of insurance, and listing all policies carried, and whether or not all insurance premiums upon the insurance policies to which reference is hereinbefore made have been paid.

(4) The payment of premiums for all insurance policies required under the provisions hereof and the costs associated with the maintenance of any self-insurance program shall be considered Maintenance and Operating Expenses. Nothing in this Ordinance shall be construed as requiring the City to expend any funds which are derived from sources other than the operation of the System, but nothing herein shall be construed as preventing the City from doing so.

(5) Governmental Agencies. It will comply with all of the terms and conditions of any and all franchises, permits and authorizations applicable to or necessary with respect to the System, and which have been obtained from any governmental agency; and the City's consulting engineer has or will obtain and keep in full force and effect all franchises, permits, authorization and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation and maintenance of the System.

(6) No Competition. It will not operate, or grant any franchise or permit, to the extent it legally may, for the acquisition, construction or operation of any competing facilities which might be used as a substitute for the System's facilities, and, to the extent that it legally may, the City will prohibit any such competing facilities.

Section 21. RECORDS AND ACCOUNTS - ANNUAL AUDIT. The City covenants and agrees that so long as any of the Bonds Similarly Secured remain Outstanding, the City will keep and maintain a separate and complete system of records and accounts pertaining to the operations of the System in which full, complete, true, proper, and correct entries shall be made of all dealings, transactions, business and affairs relating thereto, or which in any way affect or pertain to the System or the Gross Revenues or the Net Revenues thereof, as provided by generally accepted accounting principles, consistently applied, and by Chapter 1502, Texas Government Code, as amended, or other applicable law. The Holders of the Bonds Similarly Secured or any duly authorized agent or agents of such Holders shall have the right to inspect the System and all properties comprising the same. The City further agrees that, following the close of each Fiscal

Year, the City will cause an audit report of such records and accounts to be made by an Accountant. Copies of each annual audit shall be made available for public inspection during normal business hours at the City's principal office and the City Secretary's office and may be furnished to, upon written request, any Holder upon payment of the reasonable copying and mailing charges. Expenses incurred in making the annual audit of the operations of the System shall be considered as Maintenance and Operating Expenses.

Section 22. COVENANTS REGARDING TAX EXEMPTION. (a) Covenants. The City covenants to take any action necessary to assure, or refrain from any action that would adversely affect, the treatment of the Bonds as obligations described in section 103 of the Code, the interest on which is not includable in the "gross income" of the holder for purposes of federal income taxation. In furtherance thereof, the City covenants as follows:

(i) to take any action to assure that no more than 10 percent of the proceeds of the Bonds or any prior obligations or the projects financed or refinanced therewith (less amounts deposited to a reserve fund, if any) are used for any "private business use," as defined in section 141(b)(6) of the Code or, if more than 10 percent of the proceeds of the Bonds or any prior obligations or the projects financed or refinanced therewith are so used, such amounts, whether or not received by the City, with respect to such private business use, do not, under the terms of this Ordinance or any underlying arrangement, directly or indirectly, secure or provide for the payment of more than 10 percent of the debt service on the Bonds, in contravention of section 141(b)(2) of the Code;

(ii) to take any action to assure that in the event that the "private business use" described in subsection (i) hereof exceeds 5 percent of the proceeds of the Bonds or any prior obligations or the projects financed or refinanced therewith (less amounts deposited into a reserve fund, if any) then the amount in excess of 5 percent is used for a "private business use" that is "related" and not "disproportionate," within the meaning of section 141(b)(3) of the Code, to the governmental use;

(iii) to take any action to assure that no amount that is greater than the lesser of \$5,000,000, or 5 percent of the proceeds of the Bonds (less amounts deposited into a reserve fund, if any) is directly or indirectly used to finance loans to persons, other than state or local governmental units, in contravention of section 141(c) of the Code;

(iv) to refrain from taking any action that would otherwise result in the Bonds being treated as "private activity bonds" within the meaning of section 141(b) of the Code;

(v) to refrain from taking any action that would result in the Bonds being "federally guaranteed" within the meaning of section 149(b) of the Code;

(vi) to refrain from using any portion of the proceeds of the Bonds, directly or indirectly, to acquire or to replace funds that were used, directly or indirectly, to acquire investment property (as defined in section 148(b)(2) of the Code) that produces a materially higher yield over the term of the Bonds, other than investment property acquired with -

(A) proceeds of the Bonds invested for a reasonable temporary period of 3 years or less or, in the case of a refunding bond, for a period of 30 days or less until such proceeds are needed for the purpose for which the Bonds are issued,

(B) amounts invested in a bona fide debt service fund, within the meaning of section 1.148-1(b) of the Treasury Regulations, and

(C) amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed 10 percent of the proceeds of the Bonds;

(vii) to otherwise restrict the use of the proceeds of the Bonds or amounts treated as proceeds of the Bonds, as may be necessary, so that the Bonds do not otherwise contravene the requirements of section 148 of the Code (relating to arbitrage) and, to the extent applicable, section 149(d) of the Code (relating to advance refundings);

(viii) to pay to the United States of America at least once during each five-year period (beginning on the date of delivery of the Bonds) an amount that is at least equal to 90 percent of the "Excess Earnings," within the meaning of section 148(f) of the Code and to pay to the United States of America, not later than 60 days after the Bonds have been paid in full, 100 percent of the amount then required to be paid as a result of Excess Earnings under section 148(f) of the Code; and

(ix) to file or cause to be filed with the Secretary of the Treasury, not later than the 15th day of the second calendar month after the close of the calendar quarter in which the Bonds are issued, an information statement concerning the Bonds, all under and in accordance with section 149(e) of the Code and the applicable Treasury Regulations promulgated thereunder.

(x) The City will not acquire any of the Texas Water Development Board's source series bonds in an amount related to the amount of Bonds acquired by the Texas Water Development Board.

(b) Rebate Fund. In order to facilitate compliance with Section (a)(viii) of this Ordinance, a "Rebate Fund" is hereby established by the City for the sole benefit of the United States of America, and such Fund shall not be subject to the claim of any other person, including without limitation the bondholders. The Rebate Fund is established for the additional purpose of compliance with section 148 of the Code.

(c) Use of Proceeds. For purposes of the foregoing covenants, the City understands that the term "proceeds" includes "disposition proceeds" as defined in the Treasury Regulations and, in the case of refunding bonds, transferred proceeds (if any) and proceeds of the refunded bonds expended prior to the date of issuance of the Bonds. It is the understanding of the City that the covenants contained herein are intended to assure compliance with the Code and any regulations or rulings promulgated by the U.S. Department of the Treasury pursuant thereto. In the event that regulations or rulings are hereafter promulgated that modify or expand provisions of the Code, as applicable to the Bonds, the City will not be required to comply with any covenant contained herein to the extent that such failure to comply, in the opinion of nationally recognized bond counsel, will not adversely affect the exemption from federal income taxation of interest on the Bonds under section 103 of the Code. In the event that regulations or rulings are hereafter promulgated that impose additional requirements applicable to the Bonds, the City agrees to comply with the additional requirements to the extent necessary, in the opinion of nationally recognized bond counsel, to preserve the exemption from federal income taxation of interest on the Bonds under section 103 of the Code. In furtherance of such intention, the City hereby authorizes and directs the Mayor or City Manger to execute any documents, certificates or reports required by the Code and to make such elections, on behalf of the City, that may be permitted by the Code as are consistent with the purpose for the issuance of the Bonds.

(d) Written Procedures. Unless superseded by another action of the City, to ensure compliance with the covenants contained herein regarding private business use, remedial actions, arbitrage and rebate, the City Council of the City hereby adopts and establishes the instructions attached hereto as Exhibit A as the City's written procedures.

Section 23. ALLOCATION OF, AND LIMITATION ON, EXPENDITURES FOR THE PROJECT. The City covenants to account for the expenditure of sale proceeds and investment earnings to be used for the Project on its books and records in accordance with the requirements of the Code. The City recognizes that in order for the proceeds to be considered used for the reimbursement of costs, the proceeds must be allocated to expenditures within 18 months of the later of the date that (i) the expenditure is made, or (ii) the Project is completed; but in no event later than three years after the date on which the original expenditure is paid. The foregoing notwithstanding, the City recognizes that in order for proceeds to be expended under the Internal Revenue Code, the sale proceeds or investment earnings must be expended no more than 60 days after the earlier of (i) the fifth anniversary of the delivery of the Bonds, or (ii) the date the Bonds are retired. The City agrees to obtain the advice of nationally-recognized bond counsel if such expenditure fails to comply with the foregoing to assure that such expenditure will not adversely affect the tax-exempt status of the Bonds. For purposes hereof, the City shall not be obligated to comply with this covenant if it obtains an opinion that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest

Section 24. DISPOSITION OF PROJECT. The City covenants that the Project (or any portions thereof) will not be sold or otherwise disposed in a transaction resulting in the receipt by the City of cash or other compensation, unless the City obtains an opinion of nationally-recognized bond counsel that such sale or other disposition will not adversely affect the tax-exempt status of the Bonds. For purposes of the foregoing, the portion of the property comprising personal property and disposed in the ordinary course shall not be treated as a transaction resulting in the receipt of cash or other compensation. For purposes hereof, the City shall not be obligated to comply with this covenant if it obtains a legal opinion that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest.

Section 25. COMPLIANCE WITH RULE 15c2-12.

(a) Definitions. As used in this Section, the following terms have the meanings ascribed to such terms below:

"EMMA" means the Electronic Municipal Market Access system being established by the MSRB.

"MSRB" means the Municipal Securities Rulemaking Board.

"Rule" means SEC Rule 15c2-12, as amended from time to time.

"SEC" means the United States Securities and Exchange Commission.

(b) Annual Reports. The City shall provide annually to the MSRB through EMMA within six months after the end of each fiscal year ending in or after 2018, financial information and operating data with respect to the City of the general type described in Exhibit B hereto. Any financial statements so to be provided shall be (1) prepared in accordance with the accounting principles described in Exhibit B hereto, or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation, and (2) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within such period, then the City shall provide (1) unaudited financial statements for such fiscal year within such six month period, and (2) audited financial statements for the applicable fiscal year to the MSRB through EMMA when and if the audit report on such statements become available.

If the City changes its fiscal year, it will notify the MSRB through EMMA of the date of the new fiscal year end prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this paragraph (b).

The financial information and operating data to be provided pursuant to this paragraph (b) may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document, if it is available from the MSRB) that theretofore has been provided to the MSRB through EMMA or filed with the SEC.

(c) Event Notices.

(i) The City shall notify the MSRB through EMMA in an electronic format as prescribed by the MSRB, in a timely manner (but not in excess of ten business days after the occurrence of the event) of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws:

1. Non-payment related defaults;
2. Modifications to rights of holders;
3. Redemption calls;
4. Release, substitution, or sale of property securing repayment of the Bonds;
5. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, 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; and
6. Appointment of a successor or additional trustee or the change of name of a trustee.

(ii) The City shall notify the MSRB through EMMA in an electronic format as prescribed by the MSRB, in a timely manner (but not in excess of ten business days after the occurrence of the event) of any of the following events with respect to the Bonds, without regard to whether such event is considered material within the meaning of the federal securities laws:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds;

6. Tender offers;
7. Defeasances;
8. Rating changes; and
9. Bankruptcy, insolvency, receivership or similar event of an obligated person.

(iii) The City shall notify the MSRB through EMMA, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with subsection (b) of this Section by the time required by such subsection.

(d) Limitations, Disclaimers, and Amendments. The City shall be obligated to observe and perform the covenants specified in this Section for so long as, but only for so long as, the City remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the City in any event will give notice of any deposit made in accordance with Section 11 of this Ordinance that causes Bonds no longer to be outstanding.

The provisions of this Section are for the sole benefit of the holders and beneficial owners of the Bonds, and nothing in this Section, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The City undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the City's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Section or otherwise, except as expressly provided herein. The City does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE CITY BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE CITY, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

No default by the City in observing or performing its obligations under this Section shall comprise a breach of or default under this Ordinance for purposes of any other provision of this Ordinance.

Nothing in this Section is intended or shall act to disclaim, waive, or otherwise limit the duties of the City under federal and state securities laws.

The provisions of this Section may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions of this Section, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such

offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Ordinance that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the holders and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the City so amends the provisions of this Section, it shall include with any amended financial information or operating data next provided in accordance with paragraph (b) of this Section an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information or operating data so provided.

Section 26. **ISSUANCE OF ADDITIONAL BONDS.** (a) The City shall have the right and power at any time and from time to time and in one or more series or issues, to authorize, issue and deliver additional parity revenue bonds or other obligations (herein called "Additional Bonds"), in accordance with law, in any amounts, for purposes of extending, improving or repairing the System or for the purpose of refunding of any Bonds Similarly Secured, Subordinate Lien Obligations or other obligations of the City incurred in connection with the ownership or operation of the System. Such Additional Bonds, if and when authorized, issued and delivered in accordance with this Ordinance, shall be secured by and made payable equally and ratably on a parity with all other Bonds Similarly Secured, from the lien on and pledge of the Pledged Revenues herein granted.

(b) The Interest and Sinking Fund established by this Ordinance shall secure and be used to pay all Bonds Similarly Secured. However, each ordinance under which Additional Bonds are issued shall provide and require that, in addition to the amounts required by the provisions of this Ordinance and the provisions of any other ordinance or ordinances authorizing Additional Bonds to be deposited to the credit of the Interest and Sinking Fund, the City shall deposit to the credit of the Interest and Sinking Fund monthly, on or before the 30th day of each month in approximately equal monthly payments such amounts as are required for the payment of all principal of and interest on said Additional Bonds then being issued, as the same come due.

(c) The City may create and establish a reserve fund pursuant to the provisions of any ordinance authorizing the issuance of Additional Bonds for the purpose of securing that particular issue or series of Additional Bonds or any specific group of issues or series of Additional Bonds and the amounts once deposited or credited to said reserve funds shall no longer constitute Net Revenues and shall be held solely for the benefit of the Holders of the particular Additional Bonds for which such reserve fund was established. Each such reserve fund shall be designated in such manner as is necessary to identify the Additional Bonds it secures and to distinguish such reserve fund from the Reserve Fund and the reserve funds created for the benefit of other Additional Bonds.

Section 27. **FURTHER REQUIREMENTS FOR ADDITIONAL BONDS.** Additional Bonds shall be issued only in accordance with this Ordinance, but notwithstanding any provisions of this Ordinance to the contrary, no installment, Series or issue of Additional Bonds shall be issued or delivered unless:

(a) The Mayor of the Issuer and the City Secretary of the City sign a written certificate to the effect that the City is not in default as to any covenant, condition or obligation in connection with all outstanding

Bonds Similarly Secured, and the ordinances authorizing same, and that the Interest and Sinking Fund and the Reserve Fund each contains the amount then required to be therein.

(b) An independent certified public accountant, or independent firm of certified public accountants, acting by and through a certified public accountant, signs a written certificate to the effect that, in his or it opinion, during either the next preceding fiscal year, or any twelve consecutive calendar month period out of the 18-month period immediately preceding the month in which the ordinance authorizing such issuance of the then proposed Additional Bonds is passed, the Net Revenues were at least 1.25 times an amount equal to the average annual principal and interest requirements and 1.10 times the maximum annual principal and interest requirements of all Bonds Similarly Secured which are outstanding after the delivery of the proposed Additional Bonds. It is specifically provided, however, that in calculating the amount of Net Revenues for the purposes of this subsection (b) if there has been any increase in the rates or charges for any services of the System which is then in effect, but which is then in effect during all or any part of the entire period for which the Net Revenues are being calculated (hereinafter referred to as the "entire period") then the certified public accountant, or in lieu of the certified accountant a firm of consulting engineers, shall determine and certify the amount of Net Revenues as being the total of (i) the actual Net Revenues for the entire period, plus (ii) a sum equal to the aggregate amount by which the actual billings to customers of the System during the entire period would have been increased if such increased rates or charges had been in effect during the entire period.

At such time that all of the Series 2005 Bonds, Series 2006 Bonds, Series 2009 Bonds and Series 2012 Bonds are either defeased or no longer outstanding, Sub-section 27(b) shall be replaced in its entirety by the following italicized language:

(b) the Finance Director of the City signs a written certificate to the effect that, in his or her opinion, during either the next preceding fiscal year, or any twelve consecutive calendar month period out of the 18-month period immediately preceding the month in which the ordinance authorizing such issuance of the then proposed Additional Bonds is passed, the Net Revenues were at least 1.25 times an amount equal to the average annual principal and interest requirements and 1.10 times the maximum annual principal and interest requirements of all Bonds Similarly Secured which are outstanding after the delivery of the proposed Additional Bonds. It is specifically provided, however, that in calculating the amount of Net Revenues for the purposes of this subsection (b) if there has been any increase in the rates or charges for any services of the System which is then in effect, but which is then in effect during all or any part of the entire period for which the Net Revenues are being calculated (hereinafter referred to as the "entire period") then the certified public accountant, or in lieu of the certified accountant a firm of consulting engineers, shall determine and certify the amount of Net Revenues as being the total of (i) the actual Net Revenues for the entire period, plus (ii) a sum equal to the aggregate amount by which the actual billings to customers of the System during the entire period would have been increased if such increased rates or charges had been in effect during the entire period.

(c) Provision shall be made in the ordinance authorizing their issuance for increasing the Reserve Fund to the Required Reserve Amount as required by Section 14 hereof with proceeds of the Additional Bonds, a surety bond, or other available source or combination of sources including Net Revenues, or any combination.

(d) All calculations of average annual principal and interest requirements of any bonds made in connection with the issuance of any then proposed Additional Bonds shall be made as of the date of such Additional Bonds; and also in making calculations for such purpose, and for any other purpose under this Ordinance, principal amounts of any Bonds which must be redeemed prior to maturity pursuant to any

applicable mandatory redemption requirements shall be deemed to be maturing amounts of principal of such Bonds.

Section 28. **ISSUANCE OF SUBORDINATE LIEN OBLIGATIONS.** The City hereby reserves the right to issue, at any time, obligations including, but not limited to, Subordinate Lien Obligations, payable from and equally and ratably secured, in whole or in part, by a lien on and pledge of the Net Revenues, subordinate and inferior in rank and dignity to the lien on and pledge of such Net Revenues securing the payment of the Bonds Similarly Secured, as may be authorized by the laws of the State of Texas.

Section 29. **ISSUANCE OF SPECIAL PROJECT OBLIGATIONS.** Nothing in this Ordinance shall be construed to deny the City the right and it shall retain, and hereby reserves unto itself, the right to issue Special Project obligations secured by liens on and pledges of revenues and proceeds derived from Special Projects.

Section 30. **LIMITED OBLIGATIONS OF THE CITY.** The Bonds Similarly Secured are limited, special obligations of the City payable from and equally and ratably secured solely by a first lien on and pledge of the Pledged Revenues, and the Holders thereof shall never have the right to demand payment of the principal or interest on the Bonds Similarly Secured from any funds raised or to be raised through taxation by the City.

Section 31. **SECURITY FOR FUNDS.** All money on deposit in the Funds for which this Ordinance makes provision (except any portion thereof as may be at any time properly invested as provided herein) shall be secured in the manner and to the fullest extent required by the laws of Texas for the security of public funds, and money on deposit in such Funds shall be used only for the purposes permitted by this Ordinance.

Section 32. **REMEDIES IN EVENT OF DEFAULT; SECURITY INTEREST.** In addition to all the rights and remedies provided by the laws of the State of Texas, it is specifically covenanted and agreed particularly that in the event the City (i) defaults in the payment of the principal, premium, if any, or interest on the Bonds, (ii) defaults in the deposits and credits required to be made to the Interest and Sinking Fund or Reserve Fund, or (iii) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in this Ordinance, the following remedies shall be available:

(a) the Holders of any of the Bonds shall be entitled to seek a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the governing body of the City and other officers of the City to observe and perform any covenant, condition or obligation prescribed in this Ordinance.

(b) no delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. The specific remedy herein provided shall be cumulative of all other existing remedies, and the specification of such remedy shall not be deemed to be exclusive. Any provision of the Bonds or this Ordinance that restricts or limits the Texas Water Development Board's full exercise of its remedies shall be of no force and effect.

(c) Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of Pledged Revenues granted by the Issuer under Section 9 of this Ordinance, and is therefore valid, effective, and perfected. If State law is amended at any time while the Bonds are outstanding and unpaid such that the pledge of the Pledged Revenues granted by the Issuer under this Ordinance is to be subject to the filing

requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the registered owners of the Bonds the perfection of the security interest in said pledge, the Issuer agrees to take such measures as it determines are reasonable and necessary under State law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code, and enable a filing to perfect the security interest in said pledge to occur.

Section 33. DEFEASANCE OF BONDS. (a) Defeased Bonds. Any Bond and the interest thereon shall be deemed to be paid, retired and no longer Outstanding (a "Defeased Bond"), except to the extent provided in subsection (d) of this Section, when payment of the principal of such Bond, plus interest thereon to the due date (whether such due date be by reason of maturity or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar (or another entity permitted by Section 1207.061, Texas Government Code, as amended, or other applicable law, which entity, together with the Paying Agent/Registrar, are referred to collectively in this Section as the "Defeasance Agent"), in accordance with the requirements of Chapter 1207, Texas Government Code, as amended, or other applicable law (which may include the use of an escrow agreement or other similar instrument - the "Future Escrow Agreement"): (1) lawful money of the United States of America sufficient to make such payment or (2) "Defeasance Securities" (as defined below) that mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment, and when proper arrangements have been made by the Issuer with the Defeasance Agent for the payment of its services until all Defeased Bonds shall have become due and payable. At such time as a Bond shall be deemed to be a Defeased Bond hereunder, as aforesaid, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the lien on and pledge of Net Revenues as provided in this Ordinance, and such principal and interest shall be payable solely from such money or Defeasance Securities. Notwithstanding any other provision of this Ordinance to the contrary, it is hereby provided that any determination not to redeem Defeased Bonds that is made in conjunction with the payment arrangements specified in subsection (a)(i) or (ii) of this Section shall not be irrevocable, provided that: (i) in the proceedings providing for such payment arrangements, the Issuer expressly reserves the right to call the Defeased Bonds for redemption; (2) gives notice of the reservation of that right to the owners of the Defeased Bonds immediately following the making of the payment arrangements; and (3) directs that notice of the reservation be included in any redemption notices that it authorizes.

(b) Defeasance Securities. The term "Defeasance Securities" means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the Issuer adopts or approves the proceedings authorizing the financial arrangements are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

(c) Investment in Defeasance Securities. Any moneys so deposited with the Defeasance Agent may at the written direction of the Issuer be invested in Defeasance Securities, maturing in the amounts and times as hereinbefore set forth, and all income from such Defeasance Securities received by the Defeasance Agent that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be turned over to the Issuer, or deposited as directed in writing by the Issuer. Any account or Future Escrow Agreement pursuant to which the money and/or Defeasance Securities are held for

the payment of Defeased Bonds may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of the requirements specified in subsections (a)(i) or (ii) of this Section. All income from such Defeasance Securities received by the Defeasance Agent which is not required for the payment of the Defeased Bonds, with respect to which such money has been so deposited, shall be remitted to the Issuer or deposited as directed in writing by the Issuer.

(d) Paving Agent/Registrar Services. Until all Defeased Bonds shall have become due and payable, the Paying Agent/Registrar shall perform the services of Paying Agent/Registrar for such Defeased Bonds the same as if they had not been defeased, and the Issuer shall make proper arrangements to provide and pay for such services as required by this Ordinance.

(e) Selection of Bonds for Defeasance. In the event that the Issuer elects to defease less than all of the principal amount of Bonds of a maturity, the Paying Agent/Registrar shall select, or cause to be selected, such amount of Bonds by such random method as it deems fair and appropriate.

Section 34. **DAMAGED, MUTILATED, LOST, STOLEN, OR DESTROYED BONDS.** (a) Replacement Bonds. In the event any outstanding Bond is damaged, mutilated, lost, stolen or destroyed, the Paying Agent/Registrar shall cause to be printed, executed and delivered, a new bond of the same principal amount, maturity and interest rate, as the damaged, mutilated, lost, stolen or destroyed Bond, in replacement for such Bond in the manner hereinafter provided.

(b) Application for Replacement Bonds. Application for replacement of damaged, mutilated, lost, stolen or destroyed Bonds shall be made by the registered owner thereof to the Paying Agent/Registrar. In every case of loss, theft or destruction of a Bond, the registered owner applying for a replacement bond shall furnish to the City and to the Paying Agent/Registrar such security or indemnity as may be required by them to save each of them harmless from any loss or damage with respect thereto. Also, in every case of loss, theft or destruction of a Bond, the registered owner shall furnish to the City and to the Paying Agent/Registrar evidence to their satisfaction of the loss, theft or destruction of such Bond, as the case may be. In every case of damage or mutilation of a Bond, the registered owner shall surrender to the Paying Agent/Registrar for cancellation the Bond so damaged or mutilated.

(c) No Default Occurred Notwithstanding the foregoing provisions of this Section, in the event any such Bond shall have matured, and no default has occurred which is then continuing in the payment of the principal of, redemption premium, if any, or interest on the Bond, the City may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated Bond) instead of issuing a replacement Bond, provided security or indemnity is furnished as above provided in this Section.

(d) Charge for Issuance Replacement Bonds. Prior to the issuance of any replacement bond, the Paying Agent/Registrar shall charge the registered owner of such Bond with all legal, printing and other expenses in connection therewith. Every replacement bond issued pursuant to the provisions of this Section by virtue of the fact that any Bond is lost, stolen or destroyed shall constitute a contractual obligation of the City whether or not the lost, stolen or destroyed Bond shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Ordinance equally and proportionately with any and all other Bonds duly issued under this Ordinance.

(e) Authority for Issuance of Replacement Bonds. In accordance with Chapter 1201, Texas Government Code, this Section of this Ordinance shall constitute authority for the issuance of any such replacement bond without necessity of further action by the governing body of the City or any other body or person, and the duty of the replacement of such bonds is hereby authorized and imposed upon the Paying Agent/Registrar, and the Paying Agent/Registrar shall authenticate and deliver such Bonds in the form and

manner and with the effect, as provided in Section 6(a) of this Ordinance for Bonds issued in exchange for other Bonds.

Section 35. AMENDMENT OF ORDINANCE. (a) The holders of the Bonds Similarly Secured aggregating a majority in principal amount of the aggregate principal amount of then outstanding Bonds Similarly Secured shall have the right from time to time to approve any amendment to this Ordinance which may be deemed necessary or desirable by the City, provided, however, that without the consent of the holders of all of the affected Bonds Similarly Secured at the time outstanding, nothing herein contained shall permit or be construed to permit the amendment of the terms and conditions in this Ordinance or in the Bonds Similarly Secured so as to:

- (1) Make any change in the maturity of the outstanding Bonds Similarly Secured;
- (2) Reduce the rate of interest borne by any of the outstanding Bonds Similarly Secured;
- (3) Reduce the amount of the principal payable on the outstanding Bonds Similarly Secured;
- (4) Modify the terms of payment of principal of or interest on the outstanding Bonds Similarly Secured or impose any conditions with respect to such payment;
- (5) Affect the rights of the holders of less than all of the Bonds Similarly Secured then outstanding;
- (6) Change the minimum percentage of the principal amount of Bonds Similarly Secured necessary for consent to such amendment.

(b) If at any time the City shall desire to amend this Ordinance under this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal of general circulation in The City of New York, New York or in the State of Texas, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file for inspection by all registered owners of Bonds Similarly Secured at the designated trust office of the registrar for the Bonds Similarly Secured. Such publication is not required, however, if notice in writing is given to each registered owner of the Bonds Similarly Secured.

(c) Whenever at any time not less than thirty days, and within one year, from the date of the first publication of said notice or other service of written notice the City shall receive an instrument or instruments executed by the holders of at least a majority in aggregate principal amount of all Bonds Similarly Secured then outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file with the Paying Agent/Registrar, the City Commission may pass the amendatory ordinance in substantially the same form.

(d) Upon the passage of any amendatory ordinance pursuant to the provisions of this Section, this Ordinance shall be deemed to be amended in accordance with such amendatory ordinance, and the respective rights, duties and obligations under this Ordinance of the City and all the holders of then outstanding Bonds Similarly Secured shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such amendments.

(e) Any consent given by the registered owner of a Bonds Similarly Secured pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication of the notice provided for in this Section, and shall be conclusive and binding upon all future holders of the same Bonds Similarly Secured during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the holder who gave such consent, or by a successor in title, by filing notice thereof with the Paying Agent and the City, but such revocation shall not be effective if the registered owners of at least a majority in aggregate principal amount of the then outstanding Bonds

Similarly Secured as in this Section defined have, prior to the attempted revocation, consented to and approve the amendment.

(f) For the purpose of this Section, the fact of the holding of Bonds Similarly Secured issued in registered form without coupons and the amounts and numbers of such Bonds Similarly Secured and the date of their holding same shall be proved by the Registration Books of the Paying Agent/Registrar. For purposes of this Section, the holder of a Parity Obligation in such registered form shall be the owner thereof as shown on such Registration Books. The City may conclusively assume that such ownership continues until written notice to the contrary is served upon the City.

(g) The foregoing provisions of this Section notwithstanding, including subsection (b), the City by action of the City Commission may amend this Ordinance for anyone or more of the following purposes:

(1) To add to the covenants and agreements of the City in this Ordinance contained, other covenants and agreements thereafter to be observed, grant additional rights or remedies to bondholders or to surrender, restrict or limit any right or power herein reserved to or conferred upon the City;

(2) To make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained in this Ordinance, or in regard to clarifying matters or questions arising under this Ordinance, as are necessary or desirable and not contrary to or inconsistent with this Ordinance and which shall not adversely affect the interests of the holders of the Bonds Similarly Secured;

(3) To make any changes or amendments requested by any Rating Agency, as a condition to the issuance or maintenance of a rating, which changes or amendments do not, in the judgment of the City, materially adversely affect the interests of the owners of the outstanding Bonds Similarly Secured;

(4) To make such changes, modifications or amendments as may be necessary or desirable, which shall not adversely affect the interests of the owners of the outstanding Bonds Similarly Secured, in order, to the extent permitted by law, to facilitate the economic and practical utilization of credit agreements with respect to the Bonds Similarly Secured including, without limitation, supplementing the definition of "Annual Debt Service Requirements" to address the amortization of payments due and owing under a credit agreement;

(5) To modify any of the provisions of this Ordinance in any other respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds Similarly Secured outstanding at the date of the adoption of such modification shall cease to be outstanding, and (ii) such modification shall be specifically referred to in the text of all Bonds Similarly Secured issued after the date of the adoption of such modification.

Notice of any such amendment may be published or given by the City in the manner described in subsection (b) of this Section; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

Section 36. CUSTODY, APPROVAL AND REGISTRATION OF BONDS; BOND COUNSEL'S OPINION, AND CUSIP NUMBERS. (a) Upon registration of the Bonds said Comptroller of Public Accounts (or a deputy designated in writing to act for said Comptroller) shall manually sign the Comptroller's Registration Certificate attached to the initial Bond, and the seal of said Comptroller shall be impressed, or placed in facsimile, on such Certificate. The approving legal opinion of the City's Bond Counsel

(with an appropriate certificate pertaining thereto executed by facsimile signature of the City Secretary of the City) and the assigned CUSIP numbers may, at the option of the City, be printed on or attached to the Bonds issued and delivered under this Ordinance, but such additions or attachments shall not have any legal effect, and shall be solely for the convenience and information of the registered owners of the Bonds.

Section 37. UNAVAILABILITY OF AUTHORIZED PUBLICATION. If, because of the temporary or permanent suspension of any newspaper, journal or other publication, or, for any reason, publication of notice cannot be made meeting any requirements herein established, any notice required to be published by the provisions of this Ordinance shall be given in such other manner and at such time or times as in the judgment of the City shall most effectively approximate such required publication and the giving of such notice in such manner shall for all purposes of this Ordinance be deemed to be in compliance with the requirements for publication thereof.

Section 38. UTILITY BOARD. (a) Pursuant to the authority contained in Chapter 1502, as amended, Texas Government code, except as otherwise specifically provided in this Ordinance, the complete management and control of the System, during such time as the Bonds Similarly Secured outstanding and unpaid, shall be vested in a Board consisting of five citizens of the United States of America, constituted as provided in this Section, to be known as the Utilities Board of McAllen. Said Board is referred to in this Ordinance as the Board or Board of Trustees. The Mayor of the Issuer or, as permitted by law, his designee shall, ex-officio, be one of the full voting members of the Board, and the remaining members of the Board shall consist of the following and serve terms as follows:

Charles Amos, Chairman	Place A	Term expires 20__
Tony Aguirre, Jr., Vice Chairman	Place B	Term expires 2019
Albert Cardenas, Trustee	Place C	Term expires 2019
Ernest R. Williams, Trustee	Place D	Term expires 20__

Jim Darling, Ex-Officio Member

The term of office of each member elected to the Board, after the initial terms of the members as provided above, shall be four years, except as otherwise may be provided by law. At the regular Issuer election held in May of odd numbered years, there shall be elected by the qualified electors of the Issuer successors for the members of the Board whose terms expires in such year. If for any reason one or more vacancies in memberships of the Board shall occur other than by expiration of term of office, a successor for the member whose membership so becomes vacant shall be selected by vote of the majority of the remaining members of the Board, and the successor so appointed shall hold office until the next May election of the odd-numbered years after his appointment.

If at any time in the future the Legislature shall adopt a law authorizing an increase in the number of members of the Board operating municipally-owned utilities, the City Commission of the Issuer may in its discretion provide for increasing the membership of the Board in such manner as it may provide.

(c) Removal of residence from the Issuer by any appointed member of the Board shall vacate his office as a member of the Board, and any member of the Board, other than one exofficio member, who shall be continuously absent from all meetings held by the Board for a period of four consecutive months shall, unless he shall have been granted leave of absence by the majority vote of the remaining members of the Board, constitute an automatic resignation as a member of the Board. If any member shall announce their candidacy, or shall in fact become a candidate for an election of any office of profit or trust other than such Board member's office when the unexpired term of such office then held shall exceed one-year, such announcement or such candidacy shall constitute an automatic resignation as member of the Board. Any members of the Board other than the ex-officio member may, by majority vote of the remaining members of

the City Commission of the Issuer, be removed from office after public hearing, if requested, but only for adequate cause.

(d) Except as otherwise specifically provided in this Ordinance, the Board shall have absolute and complete authority and power with reference to the control, management and operation of the System and the expenditure and application of the revenues of the System subject to the provisions contained in this Ordinance, all of which shall be binding upon and shall govern the Board. In connection with the management and operation of the System and the expenditure and application of the revenues therefrom, the Board shall be vested with all of the powers of the Issuer with respect thereto, including all powers necessary or appropriate for the performance of all the covenants, undertakings and agreements of the Issuer contained in this Ordinance, and with the exception of fixing rates and charges for service rendered by the System (which powers are reserved by the City Commission of the Issuer) shall have full power and authority to make rules and regulations governing the furnishing of service to patrons of the System and for the payment of the same, and for the refusal of such services upon failure to pay therefor to the extent authorized by law and by this Ordinance.

(e) The Board shall enforce the rates, fees and charges for services rendered and to be rendered by the System as previously fixed by the City Commission of the Issuer, with due consideration being accorded to the terms, covenants and conditions contained in this Ordinance, and in the event operating experience indicates a necessity for the adjustment, either by an increase or a reduction of such rates, fees and charges, then the Board shall submit to the City Commission of the Issuer a full report of the basis upon which such proposed adjustment is predicated, accompanied by a formal request by the Board for approval and adoption of the rates, fees and charges recommended by the Board. If the City Commission of the Issuer approves the adjustment thus recommended by the Board it shall pass an appropriate ordinance placing such adjusted rates, fees and charges in effect, provided however that the rates, fees and charges for services rendered by the System shall never be reduced in such amounts as will impair the obligation of any of the covenants contained in this Ordinance.

(f) The Board annually shall elect one of its members as Chairman and one as Vice Chairman, and shall appoint a Secretary and Treasurer, or a Secretary-Treasurer, who may, but need not be, a member of members of the Board. If a member of the Board is not appointed as Secretary or Treasurer, or Secretary-Treasurer, then an employee or employees of the Board of Trustees may be appointed as Secretary or Treasurer or Secretary-Treasurer. The Board may follow and adopt such rules for the orderly handling of its affairs as it may see fit and may manage and conduct the affairs of the System with the same freedom and in the same manner ordinarily employed by the board of directors of private corporations operating properties of a similar nature, provided that said Board shall have at least one meeting monthly. Final action on matters coming before the Board shall be taken only in meetings open to the public.

(g) The Board shall appoint and employ all officers and employees which it may deem desirable, including a general manager of the System and an attorney or attorneys, provided the City Attorney of the Issuer shall be the chief legal advisor of the Board. To the extent practicable, the Board shall utilize the personnel and facilities of the Issuer, to reduce the expenses of maintaining and operating the System. All such services shall be rendered by the Issuer on an actual cost basis.

(h) The Board shall obtain and keep continually in force an employees fidelity and indemnity bond of so-called "blanket" type written by a solvent and recognized indemnity company and offering losses to the amount of not less than \$25,000.

(i) The members of the Board, including the ex-officio member shall receive annual compensation in the amount of \$600.

Section 39. **NO RECOURSE AGAINST CITY OFFICIALS.** No recourse shall be had for the payment of principal of or interest on any Bonds Similarly Secured or for any claim based thereon or on this Ordinance against any official of the City or any person executing any Bonds Similarly Secured.

Section 40. **FURTHER ACTIONS.** The Authorized Representatives of the City are hereby authorized, empowered and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge and deliver in the name and under the corporate seal and on behalf of the City all such instruments, whether or not herein mentioned, as may be necessary or desirable in order to carry out the terms and provisions of this Ordinance, the Bonds, the initial sale and delivery of the Bonds and the Paying Agent/Registrar Agreement. In addition, prior to the initial delivery of the Bonds, the Authorized Representatives and Bond Counsel are hereby authorized and directed to approve any technical changes or corrections to this Ordinance or to any of the instruments authorized and approved by this Ordinance necessary in order to correct any ambiguity or mistake or properly or more completely document the transactions contemplated and approved by this Ordinance or obtain the approval of the Bonds by the Texas Attorney General's office.

In case any officer of the City whose signature shall appear on any Bond shall cease to be such officer before the delivery of such Bond, such signature shall nevertheless be valid and sufficient for all purposes the same as if such officer had remained in office until such delivery.

Section 41. **INTERPRETATIONS.** All terms defined herein and all pronouns used in this Ordinance shall be deemed to apply equally to singular and plural and to all genders. The titles and headings of the articles and sections of this Ordinance have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. This Ordinance and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of the Bonds and the validity of the lien on and pledge of the Pledged Revenues to secure the payment of the Bonds.

Section 42. **INCONSISTENT PROVISIONS.** All ordinances, orders or resolutions, or parts thereof, which are in conflict or inconsistent with any provision of this Ordinance are hereby repealed to the extent of such conflict and the provisions of this Ordinance shall be and remain controlling as to the matters contained herein.

Section 43. **INTERESTED PARTIES.** Nothing in this Ordinance expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the City, the Bond Issuer and the registered owners of the Bonds, any right, remedy or claim under or by reason of this Ordinance or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Ordinance contained by and on behalf of the City shall be for the sole and exclusive benefit of the City, the Bond Insurer and the registered owners of the Bonds.

Section 44. **INCORPORATION OF RECITALS.** The City hereby finds that the statements set forth in the recitals of this Ordinance are true and correct, and the City hereby incorporates such recitals as a part of this Ordinance.

Section 45. **SEVERABILITY.** If any provision of this Ordinance or the application thereof to any circumstance shall be held to be invalid, the remainder of this Ordinance and the application thereof to other circumstances shall nevertheless be valid, and this governing body hereby declares that this Ordinance would have been enacted without such invalid provision.

Section 46. SALE OF BONDS. The Bonds are hereby sold and shall be delivered to the TEXAS WATER DEVELOPMENT BOARD at a price equal to the par amount thereof, less an origination fee payable to the Texas Water Development Board of ____% calculated pursuant to the Texas Water Development Board rules.

Section 47. APPROVAL OF BONDS. The Bonds have been purchased by the Texas Water Development Board pursuant to its Resolution No. _____ adopted on _____, which provides that the Bonds are being purchased from the Drinking Water State Revolving Fund and that in accordance thereto the Executive Administrator of the Board will purchase the Bonds at the price set forth in Section 46, with all of the proceeds to be deposited in the Escrow Fund created in the Escrow Agreement herein below approved for future distribution into the Construction Fund as set forth therein.

Section 48. APPROVAL OF ESCROW AGREEMENT. The Mayor of the Issuer is hereby authorized and directed to execute and deliver and the City Secretary of the Issuer is hereby authorized and directed to attest an Escrow Agreement in substantially the form attached hereto as Exhibit C. The moneys in the Escrow Fund upon authorization from the Development Fund Manager of the Texas Water Development Board shall be deposited into the Construction Fund as established herein.

Section 49. CONSTRUCTION FUND. There shall be established a Construction Fund (which shall be separate from all other accounts and funds of the Issuer) with the Issuer's depository bank and upon release of funds from the Escrow Fund such funds shall be deposited into this Construction Fund. The cost of issuance of the Bonds, being legal, fiscal and engineering fees, may be paid from this Fund. The cost of the construction of the Waterworks System improvements will be paid from this Construction Fund upon direction of the Issuer. All interest and profits from investments made with moneys in the Construction Fund shall remain on deposit in the Construction Fund as a part thereof. After completion of the payment of all costs of the Waterworks and Sewer System improvements, any residue remaining in the Construction Fund shall be applied in accordance with Section 53 hereof.

Section 50. FINAL ACCOUNTING. The Issuer shall render a final accounting to the Texas Water Development Board in reference to the total cost incurred by the Issuer for Sewer System improvements together with a copy of "as built" plans of the project upon completion.

Section 51. UNAUTHORIZED EXPENDITURES. If the Executive Administrator of the Texas Water Development Board disapproves construction of any portion of the project as not being in accordance with the plans and specifications, the Issuer shall, immediately after filing the final accounting, return to the Texas Water Development Board the amount of such cost as determined by the Executive Administrator relating to the parts of the project not constructed in accordance with the plans and specifications, to the nearest multiple of the denomination of the Bonds, whereupon the Texas Water Development Board shall cancel and return to the Issuer a like amount of said Bonds held by the Texas Water Development Board. The Bonds to be canceled and returned shall be chosen in inverse order of maturity. The remainder of any such excess, in an amount not to exceed \$5,000, shall be deposited to the Bonds Fund.

Section 52. INVESTMENTS AND SECURITY. That money in any Fund established pursuant to this Ordinance may, at the option of the Issuer, be invested in eligible investments described in the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, consistent with the investment policy approved by the City Commission. All investments shall be made in such manner as will, in the opinion of the Issuer, permit the money required to be expended from any Fund to be available at the proper time or times as expected to be needed. All funds mentioned in this Ordinance shall be secured in the manner and

to the fullest extent permitted or required by law for the security of public funds, including the Public Funds Collateral Act (Chapter 2257, Government Code), and such funds shall be used only for the purposes and in the manner permitted or required by this Ordinance.

Section 53. SURPLUS PROCEEDS. That the Issuer shall use any surplus proceeds from the Bonds remaining after completion of the Sewer System improvements, to (1) to redeem, in inverse annual order, the Bonds owned by the Texas Water Development Board; (2) deposit into the Interest and Sinking Fund for the payment of interest or principal on the Bonds owned by the Texas Water Development Board; or (3) pay for eligible project costs as authorized by the Executive Administrator.

Section 54. COMPLIANCE WITH THE TEXAS WATER DEVELOPMENT BOARD'S RULES AND REGULATIONS. That the Issuer covenants to comply with the rules and regulations of the Texas Water Development Board, as long as the Bonds, or any of them, are owned by the Texas Water Development Board:

(a) Annual Audit Reporting. The Issuer shall provide to the Development Fund Manager of the Texas Water Development Board, without the necessity of a written request therefor, a copy of the Issuer's annual audit report, to be submitted without charge, within 120 days of the close of each Issuer fiscal year, prepared in accordance with generally accepted auditing standards by a certified public accountant or licensed public accountant and in compliance with 31 TAC 363.42.

(b) Insurance. The Issuer agrees to maintain casualty and other insurance of the System of a kind and in an amount customarily carried by municipal corporations owning and operating similar properties and an amount sufficient to protect the interests of the Texas Water Development Board in the Project

(c) Water Conservation Program. The Issuer agrees and covenants that it will implement an approved water conservation program in accordance with 31 TAC 363.15.

(d) Records and Accounts. The Issuer agrees and covenants that it will maintain current, accurate and complete records and accounts regarding the System in accordance with 31 TAC 375.71(a)(2)(G).

(e) Environmental Determinations. The Issuer agrees and covenants that it will comply with any special conditions of the Executive Administrator's environmental determination in accordance with 31 TAC 375.71(a)(8).

(f) Prohibition on Use of Proceeds. The Issuer covenants and agrees that none of the proceeds of the Bonds will be expended on costs incurred relating to the sampling, testing, removing or disposing of potentially contaminated soils and/or media at the project site.

(g) Indemnification. The Issuer further agrees, to the extent permitted by law, to indemnify, hold harmless and protect the Texas Was Development Board from any and all claims or causes of action arising from the sampling, analysis, transport, storage, treatment, removal and off-site disposition of any contaminated sewage sludge, contaminated sediments and/or contaminated media that may be generated by the Issuer, its contractors, consultants, agents, officials and employees as a result of activities relating to the Project.”

(h) Disadvantaged Business Enterprises Program. The Issuer covenants to provide documentation to the Texas Water Development Board that it has met the procurement requirements under the Disadvantaged Business Enterprises Program prior to release of funds for applicable goods or professional services.

Section 55. COVENANTS AND COMPLIANCE WITH THE TEXAS WATER DEVELOPMENT RESOLUTION APPROVING PURCHASE OF BONDS. The Texas Water Development Board, in Resolution No. _____ adopted on _____, requires that the City make the following covenants in this Ordinance:

(a) The City shall submit outlay reports with sufficient documentation on costs (e.g.; invoices, receipts) on a quarterly or monthly basis in accordance with the Texas Water Development Board's outlay report guidelines.

(b) All laborers and mechanics employed by contractors and subcontractors for projects shall be paid wages at rates not less than those prevailing on projects of a similar character in the locality in accordance with the Davis-Bacon Act, and the U.S. Department of Labor's implementing regulations. The City, all contractors, and all subcontractors shall ensure that all project contracts mandate compliance with Davis-Bacon.

(c) The City shall provide the Texas Water Development Board with all information required to be reported in accordance with the Federal Funding Accountability and Transparency Act of 2006, Pub. L. 109-282. The City shall obtain a Data Universal Numbering System ("DUNS") Number and shall register with System for Award Management ("SAM"), and maintain current registration at all times during which the Bonds are outstanding.

(d) All loan proceeds will be timely and expeditiously used, as required by federal statute and EPA regulations, and the City will adhere to an Executive Administrator-approved project schedule, which shall not be altered except for good cause shown and only with the written approval of the Executive Administrator.

(e) Prior to any action by the City to convey the Bonds to another entity, the conveyance and assumption of the Bonds must be approved by the Texas Water Development Board. The City must notify the Executive Administrator prior to taking any actions to alter its legal status in any manner, such as by conversion to a conservation and reclamation district or a sale-transfer-merger with another retail public utility.

(f) The City will abide by all applicable construction contract requirements related to the use of iron and steel products produced in the United States, as required by the 2014 Federal Appropriations Act and related State Revolving Fund Policy Guidelines.

Section 56. PUBLIC NOTICE. It is hereby officially found and determined that public notice of the time, place and purpose of said meeting was given, all as required by Chapter 551, Texas Government Code, and that no petition was received from the qualified electors of the Issuer protesting the issuance of the Bonds.

Section 57. ADOPTION OF ORDINANCE. This Ordinance was adopted on one reading to become effective immediately in accordance with Section 1201.028, Texas Government Code.

Section 58. EFFECTIVE DATE. This Ordinance shall become effective after passage by the City Commission.

EXHIBIT A

WRITTEN PROCEDURES RELATING TO CONTINUING COMPLIANCE WITH FEDERAL TAX COVENANTS

A. Arbitrage. With respect to the investment and expenditure of the proceeds of the Bonds, the City's Director of Finance (the "Responsible Person") will:

(i) monitor all amounts deposited into a sinking fund or funds (e.g., the Interest and Sinking Fund), to assure that the maximum amount invested at a yield higher than the yield on the Bonds does not exceed an amount equal to the debt service on the Bonds in the succeeding 12-month period plus a carryover amount equal to one-twelfth of the principal and interest payable on the Bonds for the immediately preceding 12-month period;

(ii) instruct the appropriate person or persons that the construction, renovation or acquisition of the facilities must proceed with due diligence and that binding contracts for the expenditure of at least 5% of the proceeds of the Bonds will be entered into within 6 months of the date of delivery of the Bonds ("Issue Date");

(iii) monitor that at least 85% of the proceeds of the Bonds to be used for the construction, renovation or acquisition of any facilities are expended within [3/5] years of the Issue Date;

(iv) restrict the yield of the investments to the yield on the Bonds after [3/5] years of the Issue Date;

(v) monitor all amounts deposited into a sinking fund or funds, e.g., the Interest and Sinking Fund, to assure that the maximum amount invested at a yield higher than the yield on the Bonds does not exceed an amount equal to the debt service on the Bonds in the succeeding 12 month period plus a carryover amount equal to one-twelfth of the principal and interest payable on the Bonds for the immediately preceding 12-month period;

(vi) assure that the maximum amount of any reserve fund for the Bonds invested at a yield higher than the yield on the Bonds will not exceed the lesser of (1) 10% of the principal amount of the Bonds, (2) 125% of the average annual debt service on the Bonds measured as of the Issue Date, or (3) 100% of the maximum annual debt service on the Bonds as of the Issue Date;

(vii) ensure that no more than 50% of the proceeds of the Bonds are invested in an investment with a guaranteed yield for 4 years or more;

(viii) maintain any official action of the City (such as a reimbursement resolution) stating its intent to reimburse with the proceeds of the Bonds any amount expended prior to the Issue Date for the acquisition, renovation or construction of any Certificate of Obligation financed facilities;

(ix) monitor the actions of any escrow agent (to the extent an escrow is funded with proceeds) to ensure compliance with the applicable provisions of the escrow agreement, including with respect to reinvestment of cash balances;

(x) ensure that the applicable information return (e.g., IRS Form 8038-G, 8038-GC, or any successor forms) is timely filed with the IRS; and

(xi) assure that, unless excepted from rebate and yield restriction under section 148(f) of the Code, excess investment earnings are computed and paid to the U.S. government at such time and in such

manner as directed by the IRS, and at least within 30 days after (A) every 5 years after the Issue Date, and (B) the date the Bonds are retired.

B. Private Business Use. With respect to the use of the facilities financed or refinanced with the proceeds of the Bonds the Responsible Person will:

(i) monitor the date on which the facilities are substantially complete and available to be used for the purpose intended;

(ii) monitor whether, at any time the Bonds are outstanding, any person, other than the City, the employees of the City, the agents of the City or members of the general public has any contractual right (such as a lease, purchase, management or other service agreement) with respect to any portion of the facilities;

(iii) monitor whether, at any time the Bonds are outstanding, any person, other than the City, the employees of the City, the agents of the City or members of the general public has a right to use the output of the facilities (e.g., water, gas, electricity);

(iv) monitor whether, at any time the Bonds are outstanding, any person, other than the City, the employees of the City, the agents of the City or members of the general public has a right to use the facilities to conduct or to direct the conduct of research;

(v) determine whether, at any time the Bonds are outstanding, any person, other than the City, has a naming right for the facilities or any other contractual right granting an intangible benefit;

(vi) determine whether, at any time the Bonds are outstanding, the facilities are sold or otherwise disposed of; and

(vii) take such action as is necessary to remediate any failure to maintain compliance with the covenants contained in the Ordinance related to the public use of the facilities.

C. Record Retention. The Responsible Person will maintain or cause to be maintained all records relating to the investment and expenditure of the proceeds of the Bonds and the use of the facilities financed or refinanced thereby for a period ending six (6) years after the complete extinguishment of the Bonds. If any portion of the Bonds is refunded with the proceeds of another series of tax-exempt obligations, such records shall be maintained until the six (6) years after the refunding obligations are completely extinguished. Such records can be maintained in paper or electronic format.

D. Responsible Person. The Responsible Person shall receive appropriate training regarding the City's accounting system, contract intake system, facilities management and other systems necessary to track the investment and expenditure of the proceeds and the use of the facilities financed or refinanced with the proceeds of the Bonds. The foregoing notwithstanding, the Responsible Person is authorized and instructed to retain such experienced advisors and agents as may be necessary to carry out the purposes of these instructions. If an error is discovered, the Responsible Person will promptly correct any such error within a reasonable amount of time of such discovery and take, or cause to be taken, such appropriate actions, including payment to the United States, if applicable, that is required to maintain the tax-exempt status of the Bonds.

EXHIBIT B

DESCRIPTION OF ANNUAL FINANCIAL INFORMATION

The following information is referred to in Section 25 of this Ordinance.

I. Annual Financial Statements and Operating Data

The financial information and operating data with respect to the Issuer to be provided annually in accordance with such Section includes the quantitative financial and operating data of the type included in Tables numbered 1 through 13 and in Appendix C in the Official Statements for each series of the Previously Issued Bonds.

Accounting Principles

The accounting principles referred to in such Section are the accounting principles described in the notes to the audited financial statements referred to in paragraph 1 above.

EXHIBIT C

ESCROW AGREEMENT

**The Escrow Agreement Has Been Omitted at this Point as it Appears
in Executed Form Elsewhere in this Transcript.**

APPENDIX C
FORM OF OPINION OF BOND COUNSEL



DRAFT FOR APPLICATION – 5-2-18

_____, 2018

**CITY OF McALLEN, TEXAS
WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2018
DATED _____, 2018, IN THE PRINCIPAL AMOUNT OF \$_____**

AS BOND COUNSEL FOR THE CITY OF McALLEN, TEXAS (the "City") in connection with the issuance of the Bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which mature and are subject to redemption, on the dates, in accordance with the terms and conditions stated in the text of the Bonds. Terms used herein and not otherwise defined shall have the meaning given in the Ordinance of the City authorizing the issuance and sale of the Bonds (the "Ordinance").

WE HAVE EXAMINED the Constitution and laws of the State of Texas, certified copies of the proceedings of the City Commission of the City relating to the issuance of the Bonds, including the Ordinance and other documents authorizing and relating to the issuance of the Bonds; and we have examined various certificates and documents executed by officers and officials of the City upon which certificates and documents we rely as to certain matters stated below. We have also examined one of the executed Bonds which we found to be in proper form and duly executed.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Initial Bond and Definitive Bonds have been duly authorized, and that the Initial Bond has been duly issued and delivered, all in accordance with law; and that, except as may be limited by laws applicable to the City relating to bankruptcy, reorganization, and other similar matters affecting creditors' rights, or by general principles of equity which permit the exercise of judicial discretion, the Initial Bond constitutes and Definitive Bonds (hereinafter referred to collectively as "Bonds") will constitute valid and legally binding special obligations of the City, and that the principal and interest on the Bonds, together with other outstanding revenue bonds, are payable and secured by a first lien on and pledge of the Net Revenues of the City's Waterworks and Sewer System.

IT IS FURTHER OUR OPINION IT IS FURTHER OUR OPINION THAT, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed or refinanced therewith. We call your



attention to the fact that if such representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the City, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the City as to the availability and sufficiency of the revenues of the City's Waterworks and Sewer System.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Respectfully,

Project Location

County:

Primary: Y

Can you locate your project to a specific address?: Y

Project Address: 1300 Houston Avenue

Project City: McAllen

Project State: TX

Project ZIP: 78501-0000

Project Schedule

- a) Requested loan closing date: 11-15-2018
- b) Estimated date to submit environmental planning documents.: 05-11-2018
- c) Estimated date to submit engineering planning documents.: 05-11-2018
- d) Estimated date for completion of design.: 05-11-2018
- e) Estimated Construction start date for first contract.: 05-11-2018
- f) Estimated Construction end date for last contract: 05-11-2018

City Limit Area	37526
Water CCN Service Area	35418
Sewer CCN Service Area	77120

Year	Projected Population of McAllen *	Percent of City Population in Water Service Area	Projected Service Area Population
2017	140726	0.94	132821
2020	164597	0.94	155351
2025	184490	0.94	174126
2030	204382	0.94	192901
2035	224275	0.94	211676
2040	244325	0.94	230600

Cost Estimates

PROJECT BUDGET - Entity Name _____						
Uses	TWDB Funds Series 1	TWDB Funds Series 2	TWDB Funds Series 3	Total TWDB Cost	Other Funds	Total Cost
Construction						
Construction	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal Construction	\$0	\$0	\$0	\$0	\$0	\$0
Basic Engineering Fees						
Planning +	\$0	\$0	\$0	\$0	\$0	\$0
Design	\$0	\$0	\$0	\$0	\$0	\$0
Construction Engineering	\$0	\$0	\$0	\$0	\$0	\$0
Basic Engineering Other **	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal Basic Engineering Fees	\$0	\$0	\$0	\$0	\$0	\$0
Special Services						
Application	\$0	\$0	\$0	\$0	\$0	\$0
Environmental	\$0	\$0	\$0	\$0	\$0	\$0
Water Conservation Plan	\$0	\$0	\$0	\$0	\$0	\$0
I/I Studies/Sewer Evaluation	\$0	\$0	\$0	\$0	\$0	\$0
Surveying	\$0	\$0	\$0	\$0	\$0	\$0
Geotechnical	\$0	\$0	\$0	\$0	\$0	\$0
Testing	\$0	\$0	\$0	\$0	\$0	\$0
Permits	\$0	\$0	\$0	\$0	\$0	\$0
Inspection	\$0	\$0	\$0	\$0	\$0	\$0
O&M Manual	\$0	\$0	\$0	\$0	\$0	\$0
Project Management (by engineer)	\$0	\$0	\$0	\$0	\$0	\$0
Pilot Testing	\$0	\$0	\$0	\$0	\$0	\$0
Water Distribution Modeling	\$0	\$0	\$0	\$0	\$0	\$0
Special Services Other **	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal Special Services	\$0	\$0	\$0	\$0	\$0	\$0
Other						
Administration	\$0	\$0	\$0	\$0	\$0	\$0
Land/Easements Acquisition	\$0	\$0	\$0	\$0	\$0	\$0
Water Rights Purchase (If Applicable)	\$6,900,000	\$0	\$0	\$6,900,000	\$0	\$6,900,000
Capacity Buy-In (If Applicable)	\$0	\$0	\$0	\$0	\$0	\$0
Project Legal Expenses	\$0	\$0	\$0	\$0	\$0	\$0
Other **	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal Other Services	\$6,900,000	\$0	\$0	\$6,900,000	\$0	\$6,900,000

PROJECT BUDGET - Entity Name _____						
Uses	TWDB Funds Series 1	TWDB Funds Series 2	TWDB Funds Series 3	Total TWDB Cost	Other Funds	Total Cost
Fiscal Services						
Financial Advisor	\$0	\$0	\$0	\$0	\$0	\$0
Bond Counsel	\$0	\$0	\$0	\$0	\$0	\$0
Issuance Cost	\$0	\$0	\$0	\$0	\$0	\$0
Bond Insurance/Surety	\$0	\$0	\$0	\$0	\$0	\$0
Fiscal/Legal	\$0	\$0	\$0	\$0	\$0	\$0
Capitalized Interest	\$0	\$0	\$0	\$0	\$0	\$0
Bond Reserve Fund	\$0	\$0	\$0	\$0	\$0	\$0
Loan Origination Fee	\$0	\$0	\$0	\$0	\$0	\$0
Other **	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal Fiscal Services	\$0	\$0	\$0	\$0	\$0	\$0
Contingency						
Contingency	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal Contingency	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL COSTS	\$6,900,000	\$0	\$0	\$6,900,000	\$0	\$6,900,000
Other ** description must be entered						
+ For Planning applications under the EDAP Program, please break down Planning costs as follows:						
Category A						0
Category B						0
Category C						0
Category D						0
Total Planning Costs				0	0	0

Texas Water Development Board Water Project Information							
A. Project Name		B. Project No.		C. County			
D. Program(s)		E. Date		F. Regional Planning Group (A-P)			
G. Water Project Description: (Multiphase project, new or expansion; plant, well, storage, pump station, distribution system, etc) The subject financial application (SWIFT Loan) will be used exclusively for the purchase of 3,000 ac-ft of surface water rights from Hidalgo County Irrigation District No. 1 <p style="text-align: center;">Attach map of service area affected by Project or other documentation.</p>							
H. Is an Inter Basin Transfer potentially involved? Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>			I. Is project located in a Groundwater District (If yes, identify District by name)? Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>				
J. Service Area Projected Population for at least a 20 year period: (if different from Planning Area, discuss in separate attachment)	Current Population		Projected Population				
	Year:	20	2020	2025	2030	2035	2040
	Population:	171897	179817	193017	206217	219417	232617
Project Design Year: (Year for which project will be sized)		20 N/A		Design Population: (Population served by project on the design year)		N/A	
K. Is the proposed project included in a current Regional Water Plan? Yes <input type="checkbox"/> No <input type="checkbox"/> Don't Know <input checked="" type="checkbox"/> (If Yes , please specify on what page in the Regional Water Plan - Regional Water Plan Page Number: <u>5-164</u>)							
L. What type of water source is associated directly with the proposed project ? Surface Water <input checked="" type="checkbox"/> Groundwater <input type="checkbox"/> Reuse <input type="checkbox"/>							
M. Will the project increase the volume of water supply? Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>							
N. What volume of water is the project anticipated to deliver/ treat per year? <u>3,000</u> Acre-Feet/Year							
O. Current Water Supply Information							
Surface Water Supply Source / Provider Names See Attached Summary		Certificate No.		Source County		Annual Volume and Unit	
Groundwater Supply Aquifer Gulf Coast Aquifer		Well Field location Plant Site		Source County Hidalgo		Annual Volume and Unit 1.2 MGD	
Reuse Water N/A		Certificate No.		Annual Amount Used and Unit			
P. Proposed Water Supply Associated Directly with the Proposed Project							
Surface Water Supply Source / Provider Names Rio Grande River		Certificate No.		Source County Hidalgo		Annual Volume and Unit 3,000 ac-ft/yr	
Groundwater Supply Aquifer N/A		Well Field location		Source County		Annual Volume and Unit	
Reuse Water N/A		Certificate No.		Annual Amount Used and Unit			
Q. Consulting Engineer Name N/A			Telephone No.		E-mail address		
R. Applicant Contact Name, Title Carlos Gonzalez			Telephone No. (956) 681-1770		E-mail address cagonzalez@mcallen.net		

All boxes on this form must be filled out for the application to be administratively complete. Items may be marked as N/A if appropriate.

Table 2-1: Current Water Supplies

Description of Water Supply	Annual Amount, AFY	Source of Water
Hidalgo County Irrigation District #1	476 of 4,000	Rio Grande
Hidalgo County Irrigation District #2 ^A	10,111	Rio Grande
Hidalgo County Water Improvement District #3	14,530	Rio Grande
United Irrigation District	11,250	Rio Grande
City of McAllen Diversion	679	Rio Grande
South WTP Groundwater Well	1,243	Brackish Groundwater
Total Current Water Supplies	38,289 of 41,813	-

Notes:

A. The Brownsville Irrigation District delivers up to 2,000 AFY through the HCID#2. The total HCID#2 amount (10,111 AFY) includes 2,000 AFY from the Brownsville Irrigation District.

2.b.i Potential Future Water Supplies

Historically, MPU has been able to meet annual water demands through using the water supplies described above. However, projected demands are expected to exceed current supplies by 2035. MPU is proactively developing strategies to prevent this anticipated deficit by exploring potential water supply options to be implemented in the future. The purpose of this Title XVI Feasibility Study is to evaluate the feasibility of potential reclaimed water supplies and compare them against traditional water supplies that are potentially available to MPU, including acquisition of additional surface water rights from the Rio Grande and development of a fresh groundwater supply.

During preliminary planning, nine potential reclaimed water supply options were identified by the consultant team and MPU staff. A screening workshop was held with MPU staff in which this list of nine potential reclaimed water projects was reduced to three projects that would be evaluated in further detail. A fourth hybrid option (Option 10) was later added to the list of options evaluated in detail by combining elements from Options 1 and 4. The nine preliminary options are described in Appendix A1. The two potential traditional water supply projects and the four potential reclaimed water projects are summarized in Table 2-2 and are discussed in greater detail in Section 4.c and 4.d, respectively. A geothermal water supply project has also been previously evaluated and is summarized in Section 7.b.iii.

Property Rights

a) Does the applicant currently own all the property rights, groundwater permits and surface water rights needed for this project?:

b) If all property rights, groundwater permits, and surface water rights, needed for this project have not yet been acquired, identify the rights and/or permits that will need to be acquired and provide the anticipated date by which the applicant expects to have acquired such rights and/or permits.

Type of Permit Water Right	Entity from which the right must be acquired	Acquired by lease or full ownership	Expected acquisition date	Permit / Water Right ID No.
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Permits & Easements

Are any major permits necessary for completion of the project?: N

Has the applicant obtained all necessary land and easements for the project?: N

Description of Land or Easement Permit	Entity from which the permit or right must be acquired	Acquired by lease or full ownership	Expected acquisition date	To Be Funded by TWDB (Yes/No)
N/A - No Construction	N/A	OWN	05-11-2018	N

Environmental Determination

Has a Categorical Exclusion (CE), Determination of No Effect, Finding of No Significant Impact (FONSI), Record of Decision (ROD), or any other environmental determination been issued for this project?: N

CE/DNE

Is the project potentially eligible for a CE/ Determination of No Effect (DNE) because it involves only minor rehabilitation or the functional replacement of existing equipment?: N

Adverse Environmental/Social Impacts

Are there potentially adverse environmental or social impacts that may require mitigation or extensive regulatory agency or public coordination (e.g. known impacts to properties eligible for listing on the National Register of Historic Places; potentially significant public controversy; need for an individual permit from the U.S. Army Corps of Engineers)?: N

Associated PIF(s)

PIF number(s):

PIF ID #12587

Additional Attachments

The following documents are attached after this page:

The following documents are attached after this page:

HCID # 1 Contract 2013.pdf

ORIGINAL

PERMANENT WATER SUPPLY AND DELIVERY CONTRACT

STATE OF TEXAS §
 §
COUNTY OF HIDALGO §

This Permanent Water Supply and Delivery Contract (this “**Contract**”) is entered into effective the 10th day of October, 2013, to be performed as provided for herein, by and between **HIDALGO COUNTY IRRIGATION DISTRICT NO. ONE** (the “**District**”), a political subdivision of the State of Texas, and **THE CITY OF MCALLEN, TEXAS** (the “**City**”), a municipality under the laws of the State of Texas, to set forth their agreement pertaining to the supply and delivery of untreated water from the Rio Grande River by the District to the City. The District and the City are sometimes referred to herein individually as a “Party” and collectively as the ‘Parties.’

In consideration of the mutual benefits to be received by both Parties and other good and valuable consideration, the receipt and sufficiency of which being acknowledged by both Parties, the District agrees to divert and deliver to the City certain raw, untreated and non-potable water and the City agrees to pay the District, all pursuant to the terms and provisions of this Contract.

1. THE DISTRICT.

The District owns rights to divert and use water from the Rio Grande River for irrigation and for domestic, municipal and industrial uses. These water rights are currently administered by the Rio Grande Watermaster of the Texas Commission on Environmental Quality (the “**Commission**”), or its successor, which makes allocations of available Rio Grande River water to the District in accordance with its water rights. The District has an established water diversion system upon the Rio Grande River and delivery facilities within its boundaries. The District was created and operates primarily for the purpose of providing delivery of raw, untreated and non-potable water from the Rio Grande River for irrigation purposes to agricultural lands within its boundaries and as an incidental activity delivers Rio Grande River water through contracts with other water users for the delivery of water from the Rio Grande River for their use for domestic, municipal and industrial purposes.

2. THE CITY.

The City constructed a water treatment plant (the “**Plant**”) on Lots 428, 438 and 448, John H. Shary Subdivision, Hidalgo County, Texas to provide treated water service to its citizens. The City is in need of an additional raw water supply and raw water delivery service for the Plant.

THIS CONTRACT COUNTAINS PROVISIONS FOR BINDING ARBITRATION

3. DELIVERY POINT.

The City agrees to construct and install a metered water conveyance pipeline (the “**Pipeline**”) from the Plant to a location to be mutually agreed upon at the District’s canal in Lots 184 and 185, Block 46, Pride O’ Texas Subdivision, Hidalgo County, Texas (the “**Delivery Point**”). The District shall furnish the City with a permit to connect the Pipeline with the District’s canal at the Delivery Point. The City shall, at its own expense, acquire any right of way from the Plant to the Delivery Point for the construction of the Pipeline. The City shall be responsible for the construction and maintenance of the Pipeline. The City shall obtain plans and specifications (the “**Plans**”) for the connection of the Pipeline to the District’s canal at the Delivery Point (the “**Diversion Facility**”). The City shall present the Plans for the Diversion Facility to the District for review and approval. Following the approval of the Plans by the District, the City shall give the District at least thirty (30) days prior written notice before the commencement of construction of the Diversion Facility. The City shall give the District’s representatives access to the construction activity to verify the City’s compliance with the Plans. Following the completion of construction, the City shall provide the District with an as-built set of construction documents for the Diversion Facility. In constructing the Pipeline, the City shall comply with the provisions of Paragraph 9 herein.

4. WATER SUPPLY AND McALLEN WATER SUPPLY PAYMENT.

(a) The water to be supplied hereunder to the City by the District shall be referred to herein as the McAllen Water Supply.

The “**McAllen Water Supply**” is 4,000 acre-feet of domestic, municipal and industrial use raw, untreated, non-potable water made available to the City, for consideration exchanged as set forth in this Contract. The City agrees to order and pay for at least 1,000 acre-feet of such water within 3 years from the effective date of this Contract. The City further agrees to order and pay for the balance of the McAllen Water Supply in quantity of no less than 1,000 acre-feet at no more than 2 year increments after the initial purchase. During the first three (3) years of this Contract, the price to be paid by the City to the District for that portion of the McAllen Water Supply purchased within such time period shall be Two Thousand One Hundred and No/100ths Dollars (\$2,100.00) per acre-foot (“**Initial Water Rate**”). After the first three (3) years of this Contract, the price to be paid by the City to the District for that portion of the McAllen Water Supply purchased within such time period shall be \$2,300.00.

(b) Each time the City elects to purchase all or any portion of the McAllen Water Supply, the City shall notify the District of such election in writing. The City shall pay the District the product of the number of acre-feet purchased times the applicable Water Rate (the “**Water Rights Payment**”) within thirty (30) days from the date the City notifies the District of such purchase.

(c) After the City orders and pays the District in full for the 4,000 acre-feet provided in this Contract, the Parties may agree upon future sales by the District and purchases by the City of additional water. Any additional water to be added to the McAllen Water Supply shall be endorsed on an addendum hereto and executed by both Parties to acknowledge consent showing the additional amount of water to be supplied by the District to the City as part of the McAllen Water Supply, and the price for such additional water. Any such additional water to be supplied by the District to the City shall be delivered by the District to the City pursuant to the terms of this Contract.

(d) The McAllen Water Supply shall always be delivered by the District pursuant to the terms of this Contract.

(e) Within fifteen (15) days after the City orders and pays for all or any portion of the McAllen Water Supply, the District shall prepare and file (at the District’s expense) an application with the Commission for conversion of a sufficient number of the District’s Class A irrigation water rights to satisfy the District’s obligation to supply the City with that portion of the McAllen Water Supply ordered and paid for by the City as domestic, municipal and industrial use water. Once the Commission has approved the conversion by the District of all or a portion of the McAllen Water Supply from irrigation use water to domestic, municipal and industrial use water, the District shall establish an account with the Commission that allocates that portion of the McAllen Water Supply that has been purchased by the City, as water allocated to the City to be pumped by the District.

5. WATER DELIVERY CHARGES.

(a) Following payment by the City for all or any portion of the McAllen Water Supply, during each calendar year thereafter the City may order delivery of that applicable portion of the McAllen Water Supply from the District. Upon receipt of the City’s request for water delivery, the District shall contact the Commission and request an appropriate release of a sufficient volume of water from the Falcon International Reservoir. Once the released water reaches the District’s facilities on the Rio Grande River at Penitas, Texas, the District shall divert the water from the river and pump it through the District’s canals and pipelines until it reaches the Delivery Point.

(b) The charge for the diversion and delivery of the water by the District to the City is referred to herein as the “**McAllen Water Delivery Charge**”. The McAllen Water

Delivery Charge shall be computed as the sum of the “**McAllen Water Base Charge**” and the “**Energy Charge**” as such terms are defined herein.

(c) The initial McAllen Water Base Charge shall be Forty Seven and No/100th Dollars (\$47.00) per acre-foot for that portion of the McAllen Water Supply delivered by the District to the Delivery Point.

(d) The McAllen Water Base Charge shall be adjusted annually proportional to increases in the Consumer Price Index as provided herein.

(e) In addition to the McAllen Water Base Charge, the City shall pay to the District an estimated energy pass-through charge which is derived from the actual cost of energy to the District during the prior calendar year for diesel, natural gas, electricity and/or any other source of energy used for the operation of the District’s pumping plant in Penitas, Texas (“**Energy Charge**”). For example, the Energy Charge for water delivered by the district to the City in 2013 will be estimated at the District’s actual cost of energy in 2012.

(f) Beginning with the effective date of this Contract, the Energy Charge for each year during the term of this Contract shall be estimated based upon the actual energy cost of the District per thousand gallons of total water diverted for the prior calendar year. For example, the District’s actual Energy Charge for the calendar year 2011 was \$0.0137 per thousand gallons of total water diverted by the District for all purposes. As soon as possible after the end of a calendar year, but no later than January 20th of the next year, the actual energy costs for total water diverted during the previous calendar year will be calculated by the District as set out above and the District shall notify the City of such actual energy costs and the method of calculation.

For example, for illustrative purposes only, if during the prior calendar year a total of 70,000 acre-feet (22,809,570 thousand gallons) were diverted by the District from the Rio Grande River at an annual pumping (diversion) energy cost of \$180,000.00, then the annual pumping energy costs per acre-foot of water diverted is \$2.57 ($\$180,000/70,000$) or \$0.0079 per thousand gallons.

(g) Each year, an Energy Charge adjustment will be determined for the prior year taking into account the total water diverted for the City that year, the total amount of energy pass through charges actually paid to the District that year, and the actual energy costs per acre-foot (in terms of thousand gallons) of water diverted, calculated as provided above. In the event of an overpayment of the Energy Charge by the City during the previous calendar year, the District shall pay the City the amount of the overpayment on or before January 20th of the following year. In the event of an underpayment by the City, the City shall pay the District the amount of the underpayment within thirty (30) days of receipt of a written accounting from the District.

(h) The Parties agree and stipulate that the Water Delivery Charge is just and fair and arrived at after giving due consideration to all relevant matters in determining that such charge is at this time in the best interest of each of the Parties.

(i) The City may, by giving written notice to the District within sixty (60) days of the date the District notifies the City of the new Energy Charge, have the District's records of actual energy costs for total water diverted during the calendar year in question inspected at the District's offices by a certified public accountant of the City's choice. If such audit reveals an error of two percent (2%) or more in the District's calculation of the new Energy Charge, the District shall bear the cost of the audit. The City's failure to notify the District in writing within the sixty (60) days provided for herein shall constitute a waiver of its rights to audit the Energy Charge for that calendar year.

(j) On an annual basis, the McAllen Water Base Charge shall be adjusted annually proportional to any increase in the *Consumer Price Index - All Urban Consumers (not seasonally adjusted)*, U.S. *All Items Less Food and Energy Series CUUR0000SAOL1E*, as published by the Bureau of Labor Statistics, hereafter referred to as "CPI". In January of each year, the McAllen Water Base Charge for the current year shall equal the McAllen Water Base Charge of the previous year multiplied by the product $[1 + (CPI_2 - CPI_1) / CPI_1]$ where CPI_1 is the index for the month of November prior to the beginning of the twelve (12) month period, and CPI_2 is the index for the next to last month (November) of such twelve (12) month period.

(k) In addition to the McAllen Water Delivery Charge, the City shall pay the District the product of twenty-five percent (25%) of the McAllen Water Supply delivered by the District to the Delivery Point times the then current District rate for delivery of agricultural irrigation water to compensate the District for its conveyance losses. As of the effective date of this Contract, the District's rate for delivery of agricultural irrigation water is fifteen and No/100th Dollars (\$15.00) per acre-foot. The District shall supply its own agricultural irrigation water to deliver the McAllen Water Supply to the City. In the event the rules and regulations of the Commission change so that use of the District's agricultural irrigation water for this purpose is not permitted, the City shall either supply its own agricultural irrigation water for such purposes or purchase an additional supply of water from the District for such purposes. In the event: (i) the Commission prohibits the delivery of agricultural irrigation water; or (ii) the Commission limits the delivery of agricultural irrigation water for the District's agricultural customers to less than two and one half (2.5) acre feet of irrigations per year, then in either such event the City shall either furnish its own municipal water for such purposes or the District shall deliver seventy five percent (75%) of the amount of McAllen Water Supply ordered and paid for by the City and the City shall, in addition to the McAllen Water Delivery Charge, pay the District the percent of twenty five (25%) of the volume of water ordered by the City times the then current District rate for delivery of agricultural irrigation water. For illustrative purposes only, if as of the effective date of the Contract, the City requests

delivery of 100 acre-feet of municipal water, the City shall pay the District the applicable McAllen Water Delivery Charge together with the product of 25% of the 100 acre-feet, 25 acre-feet, times \$15.00 per acre-foot or three hundred seventy five and No/100ths Dollars (\$375.00).

6. **ACCOUNTING FOR "NO CHARGE PUMPING WATER".**

(a) During a reporting period if the Commission's Rio Grande Watermaster has declared no-charge pumping at the District's diversion point, the amount of water reported by the District to the Rio Grande Watermaster as diverted from Rio Grande River for the City as "**No-Charge Pumping Water**" during such reporting period shall be equal to the total amount of water delivered for the City during the reporting period, multiplied by the ratio of the total volume of water pumped by the District during the reporting period allowing for no-charge pumping divided by the total volume of water pumped by the District in the reporting period. As an example, if the total volume of water pumped by the District in the reporting period is 720 acre-feet and the District pumps 72 acre-feet during the time periods the Rio Grande Watermaster declares no-charge pumping, then ten percent (10%) of the water delivered to the City during that reporting period would be reported as No-Charge Pumping Water.

(b) No reduction shall be made against the McAllen Water Supply for No-Charge Pumping Water.

(c) The City shall pay the McAllen Water Delivery Charge for No-Charge Pumping Water as calculated pursuant to this Contract.

7. **WATER USE REPORTS AND ASSESSMENTS.**

The District will make the necessary Rio Grande River water diversion reports to the Commission's Rio Grande Watermaster or its successor, relating to the total amount of water diverted from the Rio Grande River by the District for the City.

8. **WATER DELIVERY PROVISIONS.**

(a) Water shall be delivered to City at the Delivery Point. Notwithstanding any other provision of this Contract, the maximum delivery rate shall not be required to exceed 22 cfs. or an amount mutually approved by the Parties in writing.

(b) The City shall give the District sufficient notice of the need for water deliveries so that the District has sufficient time to order the water under applicable Rio Grande River Administrative Rules and operational procedures so that the water will arrive at the District's diversion point within sufficient time to transport the water to the Delivery

Point within the capability of the District's delivery system and the requirements of this Contract and in accordance with the District's normal operations. The District agrees to utilize its facilities and the knowledge and experience of its management, employees and directors to timely deliver the water to the best of its ability.

(c) The District agrees to promptly notify the City when there will be a known or expected interruption of water delivery service to the City. To the extent known by the District, the District agrees to timely advise the City of the existence of, or the likelihood of interruption of water deliveries due to reasons beyond the control of the District.

(d) The District disclaims any other warranties, representations, or inferences of quantity, quality, or time for delivery of water delivered.

9. **MEASUREMENT OF WATER.**

(a) The City agrees to pay for the necessary metering, gate equipment and required devices acceptable to the District to measure and control the quantity of water delivered by the District to the City at the Delivery Point. Such metering and gate equipment shall be SCADA enabled and shall be compatible with the District's system. Such metering and gate equipment shall be located at the Delivery Point. The District shall be responsible for the maintenance and operation of the meter and gate and may calibrate such metering equipment as deemed necessary by its manager, or whenever requested by City. A meter registering more than two percent (2%) above or below the correct quantity as determined by the test results shall be deemed inaccurate and shall be calibrated. If the meter is deemed accurate, the requesting Party is responsible for the cost of the calibration; otherwise, City shall be responsible for the cost. The previous readings of any meter disclosed by test to be inaccurate shall be corrected for the 90 days previous to such test, or if the date of the last calibration is less than 90 days prior, back to the last calibration in accordance with the percentage of inaccuracy found by such tests. If any meter fails to register for any period of time, the amount of water furnished shall be deemed to be the amount of water delivered in the last preceding comparable period of time known to have been accurately metered, unless the District and the City agree upon a different amount. The metering equipment shall be read by the District on a day each month as mutually agreed to by the Parties. Each Party shall have access to read the meter and meter readings made by either Party. Such readings shall be made available to the other Party.

(b) The McAllen Water Delivery Charge made by the District to the City shall be based upon the amount measured by such meter at the Delivery Point, converted and rounded to the nearest acre-foot.

(c) Each Party shall have free access to the meters.

10. **FAILURE OF DELIVERY.**

Neither Party shall be liable to the other for failure of delivery of water or the failure to comply with other conditions hereof, except for payment for water and/or for water delivered, in the event of acts of God, wars, acts of terrorism, insurrections, riots, epidemics, landslides, drought, lightning, earthquakes, fires, storms, floods, hazardous spills, explosions, and unforeseeable failure of machinery, structures, or water delivery facilities, or other occurrences beyond a Party's control. (collectively "**Force Majeure**") nor shall either Party be liable to the other Party in any event, so long as the Party is taking reasonable and continuous steps to continue and maintain delivery of water to the City.

11. **PERIODIC OPERATION OF DISTRICT PUMPING PLANT AND MAIN CANAL.**

Notwithstanding any other provisions of this Contract, the District may elect to operate its water delivery and diversion facilities in such a manner so as to limit deliveries of water to the City to a single day per week to reduce the amount of water lost to seepage, evaporation, or other losses and other drought management circumstances.

12. **WATER RIGHTS NOT AFFECTED.**

Nothing in this Contract shall be construed to affect the water rights of either Party.

13. **TERM OF CONTRACT.**

This Contract shall become effective on the date subscribed below, and shall remain in effect unless amended or terminated by mutual agreement. In the event either Party fails to comply with any of the provisions hereof, the other Party, after giving the non-complying Party thirty (30) days advance written notice of the provision so violated, may suspend the operation of this Contract pending the curing of said default. All amendments hereto shall be in writing and mutually agreed upon by both Parties.

14. **CAPITAL IMPROVEMENT CHARGES.**

"**Capital Improvement**" means the capital assets including land, improvements to land, easements, buildings, infrastructures, and other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period as more particularly described in the Governmental Accounting & Financial Reporting Standards as applicable to the District.

(a) If the District engages in a Capital Improvement project for improvements to that portion of its irrigation system which is used and useful to the delivery of water to the City, the City agrees to pay its pro rata share of the costs of the Capital Improvements paid by the District.

(1) If the District pays for such Capital Improvement project in cash, the City shall reimburse the District its pro rata share of such cash payments incurred by the District within thirty (30) days of being billed for such pro rate share by the District.

(2) If the District finances such Capital Improvement project, the City shall pay its pro rata share of each payment, including interest, by the District on the financed improvement costs within thirty (30) days of being billed for such pro rata share by the District.

(3) City's Pro Rata Share.

(i) The City's pro rate share of a Capital Improvement project paid in cash by District shall be the ratio that the total amount of water diverted by the District for the City in the preceding five (5) year period bears to the total water diverted by the District in the preceding five (5) year period.

1. As to any Capital Improvement project financed by the District for less than five (5) years, the City's pro rata share for any financed Capital Improvement costs paid by the District in a year shall be calculated by the ratio that the total amount of water diverted by the District for the City in the preceding five (5) year period bears to the total water diverted by the District in the preceding five (5) year period

2. As to any Capital Improvement project financed by the District for five (5) years or more, the City's pro rata share for any financed Capital Improvement costs paid by the District in a year shall be calculated by the ratio that the amount of water diverted by the District for the City bears to the total water diverted by the District in the preceding calendar year

(b) The pro rata amount payable by the City shall be based upon the pro rata amount of the cost of improvements made in the Capital Improvement project involving any existing District facilities along the route of delivery from and including its Rio Grande River diversion facilities to the City's Delivery Point. This pro rata amount shall be referred to herein as that portion of the Capital Improvement project cost to which the City shares with others receiving service from the District (referred to herein as "**shared cost**").

15. **INTEREST ON DELINQUENT AMOUNTS.**

Any amount owed due to a breach of this Contract including but not limited to any payment provided for herein which remains unpaid for at least ten (10) days following the date for payment provided herein shall bear interest at Prime Rate. As used herein “**Prime Rate**” means the annual rate of interest announced from time to time by *The Wall Street Journal* as the Prime Rate, changing as and when such rate changes, unless a lesser rate shall then be the maximum rate permissible by law with respect to the matter for which interest is being computed, in which case such lesser rate shall be charged, or in the event *The Wall Street Journal* no longer publishes a Prime Rate, such other similar rate of interest published or announced from time to time by a similar publication or major bank with offices in McAllen, Texas, chosen by the District.

16. **SUCCESSORS.**

In the event any other person or entity succeeds to any part or all of the business, operations or facilities of either Party, whether by purchase, assignment, contract, operation of law, court order, or by any other means or for any reason, this Contract shall be binding upon such person or entity in all of their terms and conditions and any such purchase, assignment, contract, operation of law, court order or other means shall be subject to this Contract.

17. **INTERPRETATION.**

This Contract and all the terms and conditions hereof shall be liberally construed to effectuate the purpose set forth herein and to sustain the validity of this Contract. The Parties agree that this Contract shall not be construed in favor of or against either Party on the basis that the Party did or did not author the Contract.

18. **PARTIES IN INTEREST.**

This Contract shall be for the sole and exclusive benefit of the Parties hereto and their successors and assigns hereof, and this Contract shall not inure to the benefit of any other persons or entities, and is the result of negotiations between the Parties and is not to be considered a precedent with respect to either Party in any other like situation or with respect to any other party in any other like situation.

19. **ENFORCEMENT.**

Subject to the provisions of Paragraph 25, it is understood and agreed that either Party hereto may demand specific performance of this Contract.

20. **INVALIDITY OF PROVISION.**

In the event any provision hereof is declared invalid by an arbitrator, such invalidation shall not invalidate the remaining portions of this Contract unless the provision(s) so invalidated renders this Contract non-performable by either Party and/or frustrates the purpose of the Contract.

21. **NOTICE.**

All notices, demands, requests or communications required or permitted hereunder shall be in writing and shall either be (i) personally delivered, against a written receipt, (ii) sent by certified mail, return receipt requested, postage prepaid or (iii) delivered by a nationally recognized courier service (costs prepaid) and addressed to the Parties at the addresses set forth below, or at such other addresses as may be hereafter specified by written notice delivered in accordance herewith:

If to District: HIDALGO COUNTY IRRIGATION DISTRICT NO. ONE
 Attention: Manager
 P.O. Box 870
 Edinburg, Texas 78540

If to City: CITY OF MCALLEN, TEXAS
 Attn: City Manager
 1300 Houston Ave.
 McAllen, Texas 78501

22. **AUTHORIZATION.**

The representatives of the Parties executing this Contract represent unto the other that they are authorized by action of the governing bodies of each Party to execute this Contract.

23. **AMENDMENTS AND SUPPLEMENTS.**

All amendments and supplements to this Contract shall be in writing in suitable form for recordation in the Official Records of Hidalgo County and be mutually agreed upon by both Parties.

24. **CONTRACT NOT INTENDED AS A WHOLESALE WATER SUPPLY CONTRACT.**

The Parties agree that this Contract is not intended to be a wholesale water supply contract.

25. **ARBITRATION.**

Except to the extent prohibited by law, upon the request of any Party hereto, whether made before or after the institution of any legal proceeding, any action, dispute, claim or controversy of any kind (e.g. whether in contract or in tort, statutory or common law, legal or equitable, or otherwise), now existing or hereafter arising between the Parties, shall be resolved by binding arbitration in accordance with the terms of this Contract. The foregoing matters shall be collectively referred to as "Disputes." Any Party hereto may bring an action in court to compel arbitration of any Dispute. All Disputes shall be resolved by binding arbitration and, unless otherwise agreed upon by the Parties hereto, any arbitration hereunder shall be administered by the American Arbitration Association (the "AAA"). Any arbitration hereunder shall be administered in accordance with the terms of this Contract, the Arbitration Rules for the AAA, and, to the maximum extent applicable, the Federal Arbitration Act (Title 9 of the United States Code). Arbitration proceedings hereunder shall be conducted at a location in Hidalgo County, Texas, agreed to in writing by the Parties, or, in the absence of such an agreement, selected by the arbitrator. The provisions of this Paragraph 25 shall survive any termination, amendment or expiration of this contract, unless the Parties otherwise expressly agree in writing. This Paragraph 25 may be amended, changed or modified only by the express provisions of a writing which specifically refers to this Paragraph 25 and which is signed by all of the Parties hereto.

[The remainder of this page intentionally left blank.]

IN WITNESS WHEREOF AND EXECUTED by the Parties through their authorized representatives on this Oct 10 day of 2013.

THIS CONTRACT COUNTAINS PROVISIONS FOR BINDING ARBITRATION

HIDALGO COUNTY IRRIGATION DISTRICT No. ONE

By: Robert L. Bell, Jr.
Robert L. Bell, Jr., President



CITY OF MCALLEN, TEXAS
By: James Darling
James Darling, Mayor

Annette Villarreal
Annette Villarreal, TRMC
City Secretary

MCALLEN PUBLIC UTILITY
By: Charles Amos
Charles Amos, Chairman of the Board of Trustees

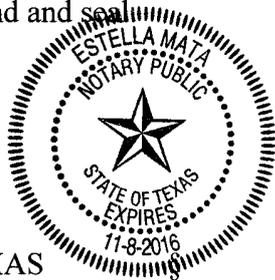
ATTEST:

Nyla L. Flatau
Nyla L. Flatau, TRMC
Utility Board Secretary

ACKNOWLEDGMENT

STATE OF TEXAS §
§
COUNTY OF HIDALGO §

This instrument was acknowledged before me on this the 10th day of Oct, 2013, by Robed L. Bell, Jr., President of HIDALGO COUNTY IRRIGATION DISTRICT No. ONE, a political subdivision of the State of Texas, on behalf of said political subdivision, to certify which I witness my hand and seal.



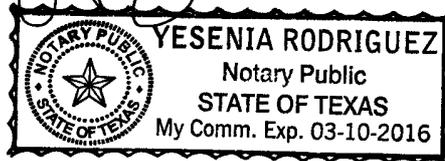
Estella Mata
Notary Public in and for the State of Texas

STATE OF TEXAS §
§
COUNTY OF HIDALGO §

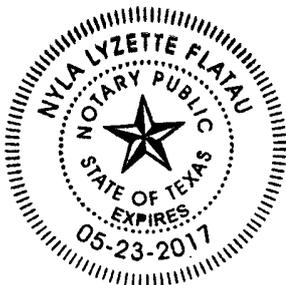
This instrument was acknowledged before me on the 6th day of Sept., 2013, by James Darling, Mayor of the CITY OF MCALLEN, TEXAS on behalf of said municipality and in the capacity stated, to certify which witness my hand and seal.

James Darling
Notary Public in and for the State of Texas

STATE OF TEXAS §
§
COUNTY OF HIDALGO §



This instrument was acknowledged before me on the 10th day of Sept, 2013, by Charles Amos, Chairman of Board of Trustees of the MCALLEN PUBLIC UTILITIES, on behalf of said Board and in the capacity stated, to certify which witness my hand and seal.



Nyia Lyzette Flatau
Notary Public in and for the State of Texas

Associated PIF PDF

The following document is for associated PIF #12587

Texas Water Development Board

OLA ID 984256

PIF No. 12587

Entity Name: McAllen

Project Name: Water Rights Acquisition

TABLE OF CONTENTS

General Information

Contact Information

Service Area

Project Description

Document - WaterSystemList

Readiness to Proceed to Construction

Estimated Costs

Submittal

General Information

Project Information

Funding Type: SWIFT

Contact Information

County: Hidalgo

Entity Contact Information	Engineering Firm Contact Information
Name of Entity: McAllen	Name of New Entity:
Prefix: Mr.	Prefix:
First Name: Mark	First Name:
Last Name: Vega, P.E.	Last Name:
Addr 1: P.O. Box 220	Addr 1:
Addr 2:	Addr 2:
City: McAllen	City:
State: TX	State:
Zip: 78505-0220	Zip:
Phone: (956) 681-1630	Phone:
Fax: (956) 681-1639	Fax:
Suffix:	Suffix:
OrgName:	OrgName:
DeptName:	DeptName:
Title: General Manager	Title:
Email: mvega@mcallen.net	Email:
	Firm Name:
Make Changes: Y	Make Changes: Y
No Entity TxWISE Id	No Engineering TxWISE Id

Service Area

Population Served: 160,000

Project Description

Project Name: Water Rights Acquisition

Where can Project be found in the most recent Regional Water Plan?

The project is described on page #: : 5-164

The capital cost is listed on page #:: 1360000

Region: M - RIO GRANDE

Phase(s) Applied For

Planning: N

Acquisition: Y

Design: N

Construction: N

Emergency

Applicant/entity's water supply will last less than 180 days.: N

Applicant has received or applied for Federal emergency funding.: N

None of the above.: Y

Agricultural Efficiency Project?: N

Estimated average annual residential water bill: \$278.16

Annual Median Household Income: \$36,176

Project will produce water: N

Project will conserve water: N

Please provide the volume of water anticipated to be produced or conserved by the project per decade:

2020	2030	2040	2050	2060	2070
38728	47219	55875	64722	73748	82563

Project will address water loss: N

Description of Proposed Project Components: The SWIFT Funding will be used to complete a water rights acquisition of 3,000 ac-ft from Hidalgo County Irrigation District # 1 to McAllen Public Utility. A copy of Water Rights Purchase Contract Agreement is attached. This additional water rights is needed to allow McAllen Public Utility to continue to keep up with demand associated with population growth.



Application

Abridged

5:00pm

Due February 2, 2018 by

Submit via email: SWIFT@twdb.texas.gov

By submitting this abridged application, you understand and confirm that the information provided is true and correct to the best of your knowledge and further understand that the failure to submit a complete abridged application by the stated deadlines, or to respond in a timely manner to additional requests for information, may result in the withdrawal of the abridged application without review.

NOTE: You may also complete and submit your Abridged Application online at <https://ola.twdb.texas.gov/>.

GENERAL INFORMATION				
Name of Entity	County	Regional Water Planning Area		
City of McAllen	Hidalgo	M		
Entity Contact Information				
Contact Person	Name	Mark Vega, P.E.		
	Title	McAllen Public Utility, General Manager ; Alternate Contact: Carlos Gonzalez, P.E., Utility Engineer		
Mailing Address	McAllen Public Utility			
	P.O. Box 220			
	McAllen, TX 78505-0220			
Phone Number	(956) 681-1630	Fax Number	(956) 681-1639	
Email Address	mvega@mcallen.net : alternate email cagonzalez@mcallen.net			
PROJECT DESCRIPTION				
Name of Project <i>(As it appears in the 2017 State Water Plan)</i>	City of McAllen 3,000 Ac-ft Water Rights Acquisition			
Where can the project be found in the most recent Regional Water Plan?	Project described on page:	5-164	Capital costs listed on page:	\$1,360,000
Phase(s) Applied For	<input type="checkbox"/> Planning <input checked="" type="checkbox"/> Acquisition <input type="checkbox"/> Design <input type="checkbox"/> Construction			
Population Served When Fully Operational	160,000			



Application

Abridged

Due February 2, 2018 by

5:00pm

Submit via email: SWIFT@twdb.texas.gov

Description of Proposed Project Components
<p>The SWIFT Funding will be used to complete a water rights acquisition of 3,000 ac-ft from Hidalgo County Irrigation District # 1 to McAllen Public Utility. A copy of Water Rights Purchase Contract Agreement is attached. This additional water rights is needed to allow McAllen Public Utility to continue to keep up with demand associated with population growth.</p>

Emergency <i>(select all that apply)</i>	<input type="checkbox"/> Applicant/entity's water supply will last less than 180 days. <input type="checkbox"/> Applicant has received or applied for Federal emergency funding. <input checked="" type="checkbox"/> None of the above.
--	---

Agricultural Efficiency Project?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Efficiency improvement achieved by implementing the project <i>(Please provide an attachment showing the basis for your calculation.)</i>
		<input type="checkbox"/> <1% <input type="checkbox"/> 10%-13.9% <input type="checkbox"/> 1%-1.9% <input type="checkbox"/> 14%-17.9% <input type="checkbox"/> 2%-5.9% <input type="checkbox"/> ≥18% <input type="checkbox"/> 6%-9.9%

Household Cost Factor			
<i>(Household Cost Factor for SWIFT prioritization is calculated by dividing the service area's average residential water bill by its annual median household income. For regional projects, these should represent the combined service areas of all participating entities.)</i>			
Estimated average annual residential water bill:	\$278.16	Annual Median Household Income:	\$36,176

The proposed project addresses:	<input type="checkbox"/> Conservation <input type="checkbox"/> Water Loss <input checked="" type="checkbox"/> N/A
--	---

Volume of Water Produced/Conserved (in Acre/Feet per Year)					
2020	2030	2040	2050	2060	2070
38,728	47,219	55,875	64,722	73,748	82,563

Readiness to Proceed <i>(select all that apply)</i>	<input type="checkbox"/> Preliminary planning or design work (30% of total project) has been completed or is not required. <input type="checkbox"/> Applicant is prepared to begin implementation or construction within 18 months of application deadline. <input checked="" type="checkbox"/> Applicant has acquired all water rights associated with the proposed project, or none will be required. Funding will be used to complete purchase agreement
---	--



Application

Abridged

Due February 2, 2018 by

5:00pm

Submit via email: SWIFT@twdb.texas.gov

ESTIMATED COSTS								
Estimated Project Costs	Low-interest Loan	\$ 6,900,000						
	Deferred Loan	\$						
	Board Participation	\$						
	Local Contribution	\$						
	Other:	\$						
	Total Estimated Project Costs	\$ 6,900,000						
<table border="1"> <tr> <td> Anticipated Commitments <i>Attach proposed schedule for multi-year commitments</i> </td> <td> <input checked="" type="checkbox"/> One-Time Commitment </td> <td> <input type="checkbox"/> Multi-Year Commitments </td> </tr> <tr> <td> Anticipated Debt Service Structure <i>Please attach explanation if requesting non-level debt service..</i> </td> <td> <input checked="" type="checkbox"/> Level </td> <td> <input type="checkbox"/> Other Request </td> </tr> </table>			Anticipated Commitments <i>Attach proposed schedule for multi-year commitments</i>	<input checked="" type="checkbox"/> One-Time Commitment	<input type="checkbox"/> Multi-Year Commitments	Anticipated Debt Service Structure <i>Please attach explanation if requesting non-level debt service..</i>	<input checked="" type="checkbox"/> Level	<input type="checkbox"/> Other Request
Anticipated Commitments <i>Attach proposed schedule for multi-year commitments</i>	<input checked="" type="checkbox"/> One-Time Commitment	<input type="checkbox"/> Multi-Year Commitments						
Anticipated Debt Service Structure <i>Please attach explanation if requesting non-level debt service..</i>	<input checked="" type="checkbox"/> Level	<input type="checkbox"/> Other Request						

Required Attachments:

- A list of all water systems served by the proposed project
- Proposed multi-year commitment schedule (if applicable)
- Explanation of requested debt service structure (if applicable)

Readiness to Proceed to Construction

Preliminary planning or design work (30% of total project) has been completed or is not required.:
N

Applicant is prepared to begin implementation or construction within 18 months of application
deadline.: N

Applicant has acquired all water rights associated with the proposed project, or none will be
required.: Y

Estimated Costs

TWDB Requested Amount

Low-Interest Loan Amount: \$6900000.00

Deferred Loan Amount:

Board Participation Amount:

Local Contribution Amount:

Other Amount:

Other Desc:

Total Estimated Project Costs: \$6900000.00

Anticipated Debt Service for 2018 Loan Closing is anticipated to be:: LEVEL

Submittal

I, NO SUBMITTED NAME ENTERED, as the designated authorized representative of the McAllen, hereby approve and authorize the submission of this project information form to the Texas Water Development Board. I certify that all information contained herein is true and correct to the best of my knowledge. I understand the failure to submit a complete project information form by the stated deadlines may result in the withdrawal of the form without review.

Submitted by: NO SUBMITTED NAME ENTERED

Telephone Number: NO SUBMIT PHONE NUMBER ENTERED

Submitted date: NO SUBMIT DATE ENTERED