

Dated April 11, 2017

Ratings:

Fitch: "BBB"

S&P: "BBB"

(See "Other Information -  
Ratings" herein)

**NEW ISSUE - Book-Entry-Only**

In the opinion of Bond Counsel, interest on the Certificates will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations.

**THE CERTIFICATES WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS**



**\$94,485,000\***  
**CITY OF DENTON, TEXAS**  
**(Denton County)**  
**CERTIFICATES OF OBLIGATION, SERIES 2017**

**Dated Date: May 1, 2017**

**Interest Accrues from Delivery Date**

**Due: February 15, as shown below**

**PAYMENT TERMS** . . . Interest on the \$94,485,000\* City of Denton, Texas Certificates of Obligation, Series 2017 (the "Certificates") will accrue from the delivery date (the "Delivery Date"), will be payable February 15 and August 15 of each year, commencing February 15, 2018, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "The Obligations - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas (see "The Obligations - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE** . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and Texas Government Code, Chapter 1371, as amended, and constitute direct obligations of the City of Denton, Texas (the "City"), payable from a combination of (i) the levy and collection of a direct annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge of surplus net revenues of the City's Utility System not in excess of \$1,000, as provided in the Certificate Ordinance (defined herein) authorizing the Certificates (see "The Obligations - Authority for Issuance").

**PURPOSE** . . . Proceeds from the sale of the Certificates will be used for (a) acquisition of vehicles and equipment for, and acquiring, constructing, installing and equipping additions, extensions, renovations and improvements to, the City's solid waste disposal system; (b) renovations to, and equipping of, existing municipal buildings, including the acquisition and installation of replacement heating, venting and air conditioning equipment, roofing and flooring; (c) acquisition of vehicles and equipment for the fire, police, building inspections, community improvement services, animal services, streets and traffic control, facilities management, and parks and recreation departments; (d) acquiring, constructing, installing and equipping additions, extensions, renovations and improvements to parking facilities; (e) constructing and improving streets, including landscaping, drainage, utility line relocations and the acquisition of land and rights-of-way therefor; (f) acquisition of equipment for, and acquiring, constructing, installing and equipping additions, extensions, renovations and improvements to, the City's electric light and power system; and also for the purpose of paying all or a portion of the City's contractual obligations for professional services, including engineers, architects, attorneys, map makers, auditors, and financial advisors, in connection with said projects and said Certificates (see "Plan of Financing").

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**MATURITY SCHEDULE**

**See page 2**

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**SEPARATE ISSUES** . . . The Certificates are being offered by the City concurrently with the "City of Denton, Texas General Obligation Refunding and Improvement Bonds, Series 2017" (the "Bonds"), and such Certificates and Bonds are hereinafter sometimes referred to collectively as the "Obligations." The Certificates and Bonds are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations and other features.

**LEGALITY** . . . The Certificates are offered for delivery when, as and if issued and received by the Initial Purchaser subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see Appendix C, "Forms of Bond Counsel's Opinions").

**DELIVERY** . . . It is expected that the Certificates will be available for delivery through The Depository Trust Company on June 13, 2017.

**SEALED BIDS DUE MAY 9, 2017, AT 10:30 AM, CDT\*\***

\* Preliminary, subject to change. See "Adjustment of Principal Amount and/or Types of Bids" in the Notice of Sale for the Certificates.

\*\* Place and Time of Bid Opening . . . The City will accept bids for the sale of the Certificates on a day during the period beginning May 9, 2017 and initially ending June 5, 2017. At least 12 hours prior to the sale of the Certificates, FirstSouthwest, a Division of Hilltop Securities Inc., as Financial Advisor to the City, will communicate, through Parity and Bloomberg, the date and time for submission of bids. The Financial Advisor, acting on behalf of the City, shall accept bids up to the time specified in the notice as hereinbefore described.

**MATURITY SCHEDULE\*****CUSIP Prefix: 248866<sup>(1)</sup>**

<u>Principal Amount*</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP Suffix<sup>(1)</sup></u>	<u>Principal Amount*</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP Suffix<sup>(1)</sup></u>
\$ 3,985,000	2018				\$ 2,930,000	2033			
4,920,000	2019				3,050,000	2034			
5,175,000	2020				3,175,000	2035			
5,445,000	2021				3,300,000	2036			
5,720,000	2022				3,415,000	2037			
1,975,000	2023				2,450,000	2038			
2,075,000	2024				2,550,000	2039			
2,185,000	2025				2,650,000	2040			
2,300,000	2026				2,760,000	2041			
2,420,000	2027				2,870,000	2042			
2,340,000	2028				2,990,000	2043			
2,460,000	2029				3,110,000	2044			
2,590,000	2030				3,240,000	2045			
2,710,000	2031				3,370,000	2046			
2,815,000	2032				3,510,000	2047			

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither of the City or the Financial Advisor shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

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

\* Preliminary, subject to change. See "Adjustment of Principal Amount and/or Types of Bids" herein.

Dated April 11, 2017

Ratings:  
Fitch: "BBB"  
S&P: "BBB"  
(See "Other Information -  
Ratings" herein)

**NEW ISSUE - Book-Entry-Only**

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

**THE BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS**



**\$29,220,000\***  
**CITY OF DENTON, TEXAS**  
**(Denton County)**  
**GENERAL OBLIGATION REFUNDING AND**  
**IMPROVEMENT BONDS, SERIES 2017**

**Dated Date: May 1, 2017**

**Due: February 15, as shown below**

**Interest Accrues from Delivery Date**

**PAYMENT TERMS** . . . Interest on the \$29,220,000\* City of Denton, Texas General Obligation Refunding and Improvement Bonds, Series 2017 (the "Bonds") will accrue from the delivery date (the "Delivery Date"), will be payable August 15 and February 15 of each year, commencing February 15, 2018, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "The Obligations - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas (see "The Obligations - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE** . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") including particularly Texas Government Code, Chapters 1207, 1371 and 1331, as amended, and are direct obligations of the City of Denton, Texas (the "City"), payable from an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, as provided in the Bond Ordinance (defined herein) authorizing the Bonds (see "The Obligations - Authority for Issuance" and "The Obligations - Security and Source of Payment").

**PURPOSE** . . . Proceeds of the Bonds are expected to be used (i) to refund certain outstanding obligations of the City described on Schedule I attached hereto (the "Refunded Obligations") for debt service savings; (ii) for street improvements and public safety facilities improvements, and (iii) to pay the costs associated with the issuance of the Bonds (see "Plan of Financing").

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**MATURITY SCHEDULE**

**See page 4**

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**SEPARATE ISSUES** . . . The Bonds are being offered by the City concurrently with the "City of Denton, Texas Certificates of Obligation, Series 2017" (the "Certificates"), under a common Official Statement, and such Bonds and Certificates are hereinafter sometimes referred to collectively as the "Obligations." The Bonds and Certificates are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations and other features.

**LEGALITY** . . . The Bonds are offered for delivery when, as and if issued and received by the Initial Purchaser subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see Appendix C, "Forms of Bond Counsel's Opinions").

**DELIVERY** . . . It is expected that the Bonds will be available for delivery through The Depository Trust Company on June 13, 2017.

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\*\* Place and Time of Bid Opening . . . The City will accept bids for the sale of the Bonds on a day during the period beginning May 9, 2017 and initially ending June 5, 2017. At least 12 hours prior to the sale of the Bonds, FirstSouthwest, a Division of Hilltop Securities Inc., as Financial Advisor to the City, will communicate, through Parity and Bloomberg, the date and time for submission of bids. The Financial Advisor, acting on behalf of the City, shall accept bids up to the time specified in the notice as hereinbefore described.

# **MATURITY SCHEDULE\***

**CUSIP Prefix: 248866<sup>(1)</sup>**

<u>Principal Amount*</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix<sup>(1)</sup></u>	<u>Principal Amount*</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix<sup>(1)</sup></u>
\$ 4,020,000	2018				\$ 850,000	2028			
3,490,000	2019				875,000	2029			
2,885,000	2020				900,000	2030			
2,985,000	2021				930,000	2031			
2,110,000	2022				960,000	2032			
730,000	2023				990,000	2033			
750,000	2024				1,030,000	2034			
775,000	2025				1,065,000	2035			
800,000	2026				1,110,000	2036			
825,000	2027				1,140,000	2037			

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

\* Preliminary, subject to change. See "Adjustment of Principal Amount and/or Types of Bids" herein.

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

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

*For purposes of compliance with Rule 15c 2-12 of the Securities and Exchange Commission (the "Rule"), this document constitutes an Official Statement of the City with respect to the Obligations that has been "deemed final" by the City as of its date except for the omission of no more than the information permitted by the Rule.*

*The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the representation, promise, or guarantee of the Financial Advisor. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "Other Information - Continuing Disclosure of Information" for a description of the City's undertaking to provide certain information on a continuing basis.*

*Neither the City nor its Financial Advisor make any representation as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Official Statement.*

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

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

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

## PRELIMINARY OFFICIAL STATEMENT SUMMARY

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

<b>THE CITY</b> .....	The City of Denton (the "City") is a political subdivision and municipal corporation of the State, located in Denton County, Texas. The City covers approximately 97.411 square miles (see "Introduction - Description of the City").
<b>THE BONDS</b> .....	The \$29,220,000* City of Denton General Obligation Refunding and Improvement Bonds, Series 2017 are to mature on February 15 in the years 2018 through 2037 (see "The Obligations - Description of the Obligations").
<b>THE CERTIFICATES</b> .....	The \$94,485,000* City of Denton Certificates of Obligation, Series 2017 are to mature on February 15 in the years 2018 through 2047 (see "The Obligations - Description of the Obligations").
<b>PAYMENT OF INTEREST</b> .....	Interest on the Bonds accrues from the Delivery Date (defined herein) and is payable August 15, 2017 and each February 15 and August 15 thereafter until maturity or prior redemption. Interest on the Certificates accrues from the Delivery Date and is payable February 15, 2018 and each August 15 and February 15 thereafter until maturity or prior redemption (see "The Obligations - Description of the Obligations" and "The Obligations - Optional Redemption").
<b>AUTHORITY FOR ISSUANCE</b> .....	<p>The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Texas Government Code, Chapters 1207, 1371 and 1331, as amended, and an ordinance (the "Authorizing Bond Ordinance") of the City in which the City Council delegated to each of the City Manager, the Deputy City Manager and the Assistant City Manager authority to complete the sale of the Bonds. The terms of the sale will be included in a "Pricing Certificate," which will complete the sale of the Bonds (the Authorizing Bond Ordinance and the Pricing Certificate for the Bonds are jointly referred to as the "Bond Ordinance") (see "The Obligations - Authority for Issuance").</p> <p>The Certificates are issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and Texas Government Code, Chapter 1371, as amended, and an ordinance (the "Authorizing Certificate Ordinance") of the City in which the City Council delegated to each of the City Manager, the Deputy City Manager and the Assistant City Manager authority to complete the sale of the Certificates. The terms of the sale will be included in a "Pricing Certificate," which will complete the sale of the Certificates (the Authorizing Certificate Ordinance and the Pricing Certificate for the Certificates are jointly referred to as the "Certificate Ordinance") (see "The Obligations - Authority for Issuance").</p>
<b>SECURITY FOR THE BONDS</b> .....	The Bonds constitute direct obligations of the City, payable from a direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City (see "The Obligations - Security and Source of Payment").
<b>SECURITY FOR THE CERTIFICATES</b> .....	The Certificates constitute direct obligations of the City, payable from a combination of (i) a direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge (not to exceed \$1,000) of surplus net revenues of the City's Utility System (see "The Obligations - Security and Source of Payment").
<b>REDEMPTION</b> .....	The City reserves the right, at its option, to redeem Bonds and Certificates, as the case may be, having stated maturities on and after February 15, 2028, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Obligations - Optional Redemption").
<b>TAX EXEMPTION</b> .....	In the opinion of Bond Counsel, the interest on the Obligations will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations.

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\* Preliminary, subject to change.

**USE OF PROCEEDS** ..... Proceeds of the Bonds are expected to be used (i) to refund certain outstanding obligations of the City described on Schedule I attached hereto (the "Refunded Obligations") for debt service savings; (ii) for street improvements and public safety facilities improvements, and (iii) to pay the costs associated with the issuance of the Bonds (see "Plan of Financing").

Proceeds from the sale of the Certificates will be used for (a) acquisition of vehicles and equipment for, and acquiring, constructing, installing and equipping additions, extensions, renovations and improvements to, the City's solid waste disposal system; (b) renovations to, and equipping of, existing municipal buildings, including the acquisition and installation of replacement heating, venting and air conditioning equipment, roofing and flooring; (c) acquisition of vehicles and equipment for the fire, police, building inspections, community improvement services, animal services, streets and traffic control, facilities management, and parks and recreation departments; (d) acquiring, constructing, installing and equipping additions, extensions, renovations and improvements to parking facilities; (e) constructing and improving streets, including landscaping, drainage, utility line relocations and the acquisition of land and rights-of-way therefor; (f) acquisition of equipment for, and acquiring, constructing, installing and equipping additions, extensions, renovations and improvements to, the City's electric light and power system; and also for the purpose of paying all or a portion of the City's contractual obligations for professional services, including engineers, architects, attorneys, map makers, auditors, and financial advisors, in connection with said projects and said Certificates (see "Plan of Financing"). .

**RATINGS** ..... The Obligations and the presently outstanding general obligation debt of the City are rated "A" by Fitch Ratings ("Fitch") and "A" by Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business ("S&P"). See "Other Information – Ratings" herein.

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

**PAYMENT RECORD** ..... The City has never defaulted on the payment of its tax-supported indebtedness.

#### SELECTED FINANCIAL INFORMATION

Fiscal Year Ended	Estimated Population <sup>(1)</sup>	Net Taxable Assessed Valuation <sup>(2)</sup>	Net Taxable Assessed Valuation Per Capita	Net Tax Debt Outstanding at End of Fiscal Year <sup>(8)</sup>	Per Capita Tax Debt	Ratio Net Tax Debt to Net Taxable Assessed Valuation	% of Total Tax Collections
9/30							
2013	117,397	\$ 6,706,462,587 <sup>(3)</sup>	57,126	\$ 120,375,588	1,025	1.79%	99.74%
2014	119,158	6,962,293,178 <sup>(4)</sup>	58,429	123,827,115	1,039	1.78%	99.73%
2015	120,945	7,761,202,411 <sup>(5)</sup>	64,171	135,879,058	1,123	1.75%	99.61%
2016	122,759	8,424,062,606 <sup>(6)</sup>	68,623	144,036,173	1,173	1.71%	99.40%
2017	124,988	9,117,506,344 <sup>(7)</sup>	72,947	167,907,663 <sup>(9)</sup>	1,343	1.84%	96.72% <sup>(10)</sup>

(1) Source: City Officials.

(2) Valuations shown are certified taxable assessed values reported by the Denton Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records. Source: Denton Central Appraisal District as of July 22, 2016.

(3) Includes tax incremental value of approximately \$10,248,781 that is not available for the City's general obligations and debt of City.

(4) Includes tax incremental value of approximately \$16,931,096 that is not available for the City's general obligations and debt of City.

(5) Includes tax incremental value of approximately \$35,975,197 that is not available for the City's general obligations and debt of City.

(6) Includes tax incremental value of approximately \$39,084,154 that is not available for the City's general obligations and debt of City.

(7) Includes tax incremental value of approximately \$54,744,149 that is not available for the City's general obligations and debt of City.

(8) Excludes self-supported general obligation debt.

(9) Includes a portion of the Bonds and a portion of the Certificates. Excludes the Refunded Obligations. Preliminary, subject to change.

(10) Collections for part year only, through March 1, 2017.

## CITY OFFICIALS, STAFF AND CONSULTANTS

### ELECTED OFFICIALS

<u>City Council</u>	<u>Term Expires</u>
Chris Watts Mayor	May, 2018
Kevin Roden Councilmember, District 1	May, 2017 <sup>(1)</sup>
Keely Briggs Councilmember, District 2	May, 2017 <sup>(2)</sup>
Kathleen Wazny Councilmember, District 3	May, 2017 <sup>(3)</sup>
Joey Hawkins Councilmember, District 4	May, 2017 <sup>(3)</sup>
Dalton Gregory Councilmember, At Large Place 5	May, 2018
Sara Bagheri Councilmember, At Large Place 6	May, 2018

(1) Term ends in May and may not run for re-election for District 1.

(2) Running unopposed for the May 6, 2017 election.

(3) Not running for re-election.

### SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>
Todd Hileman	City Manager
Bryan Langley	Deputy City Manager
Jon Fortune	Assistant City Manager
Chuck Springer	Director of Finance
Jennifer K. Walters	City Secretary
Aaron Leal	Interim City Attorney

### CONSULTANTS AND ADVISORS

Auditors ..... Pattillo, Brown and Hill, L.L.P.  
Waco, Texas

Bond Counsel ..... McCall, Parkhurst & Horton L.L.P.  
Dallas, Texas

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

For additional information regarding the City, please contact:

Chuck Springer Director of Finance City of Denton 215 E. McKinney Street Denton, Texas 76201 (940) 349-8224	or	Laura Alexander David Medanich FirstSouthwest, a Division of Hilltop Securities Inc. 777 Main Street, Suite 1200 Fort Worth, Texas 76102 (817) 332-9710
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**OFFICIAL STATEMENT**  
**RELATING TO**  
**CITY OF DENTON, TEXAS**

**\$29,220,000\***  
**GENERAL OBLIGATION REFUNDING**  
**AND IMPROVEMENT BONDS, SERIES 2017**

**\$94,485,000\***  
**CERTIFICATES OF OBLIGATION, SERIES 2017**

**INTRODUCTION**

This Preliminary Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of \$29,220,000\* City of Denton, Texas General Obligation Refunding and Improvement Bonds, Series 2017 (the "Bonds") and \$94,485,000\* City of Denton, Texas Certificates of Obligation, Series 2017 (the "Certificates"). The Bonds and the Certificates (collectively the "Obligations") are separate and distinct securities offerings being authorized for issuance under separate ordinances (the "Bond Ordinance" and the "Certificate Ordinance", respectively, each as defined below, and collectively the "Ordinances") adopted by the City Council of the City, but are being offered and sold pursuant to a common Official Statement, and while the Bonds and Certificates share certain common attributes, each issue is separate and apart from the other and should be reviewed and analyzed independently, including the kind and type of obligation being issued, its terms of payment, the security for its payment, the rights of the holders, the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations and the covenants and agreements made with respect thereto. The City Council adopted an ordinance on April 18, 2017 authorizing the issuance of the Bonds (the "Authorizing Bond Ordinance"). In the Authorizing Bond Ordinance, as permitted by the provisions of Chapters 1207 and 1371, Texas Government Code, as amended, the City Council delegated the authority to each of the City Manager, the Deputy City Manager and the Assistant City Manager to establish the terms and details of the Bonds and to effect the sale of the Bonds pursuant to a "Pricing Certificate" (the Authorizing Bond Ordinance and the Pricing Certificate for the Bonds are jointly referred to as the "Bond Ordinance"). The City Council adopted an ordinance on April 18, 2017 authorizing the issuance of the Certificates (the "Authorizing Certificate Ordinance"). In the Authorizing Certificate Ordinance, as permitted by the provisions of Chapters 1371, Texas Government Code, as amended, the City Council delegated the authority to each of the City Manager, the Deputy City Manager and the Assistant City Manager to establish the terms and details of the Certificates and to effect the sale of the Certificates pursuant to a "Pricing Certificate" (the Authorizing Certificate Ordinance and the Pricing Certificate for the Certificates are jointly referred to as the "Certificate Ordinance"). Capitalized terms used in this Preliminary Official Statement have the same meanings assigned to such terms in each respective Ordinance, except as otherwise indicated herein.

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

**DESCRIPTION OF THE CITY . . .** The City of Denton, Texas (the "City") is a political subdivision located in Denton County operating as a home-rule city under the laws of the State of Texas and a charter approved by the voters in 1959. The City operates under the Council/Manager form of government where the Mayor and six Councilmembers are elected for staggered two-year terms. The City Council formulates operating policy for the City while the City Manager is the chief administrative officer. The City is approximately 97.411 square miles in area.

**PLAN OF FINANCING**

**PURPOSE . . .** Proceeds of the Bonds are expected to be used (i) to refund certain outstanding obligations of the City described on Schedule I attached hereto (the "Refunded Obligations") for debt service savings; (ii) for street improvements and public safety facilities improvements, , and (iii) to pay the costs associated with the issuance of the Bonds.

Proceeds from the sale of the Certificates will be used for (a) acquisition of vehicles and equipment for, and acquiring, constructing, installing and equipping additions, extensions, renovations and improvements to, the City's solid waste disposal system; (b) renovations to, and equipping of, existing municipal buildings, including the acquisition and installation of replacement heating, venting and air conditioning equipment, roofing and flooring; (c) acquisition of vehicles and equipment for the fire, police, building inspections, community improvement services, animal services, streets and traffic control, facilities management, and parks and recreation departments; (d) acquiring, constructing, installing and equipping additions, extensions, renovations and improvements to parking facilities; (e) constructing and improving streets, including landscaping, drainage, utility line relocations and the acquisition of land and rights-of-way therefor; ,(f) acquisition of equipment for, and acquiring, constructing, installing and equipping additions, extensions, renovations and improvements to, the City's electric light and power system; and also for the purpose of paying all or a portion of the City's contractual obligations for professional services, including engineers, architects, attorneys, map makers, auditors, and financial advisors, in connection with said projects and said Certificates.

\* Preliminary, subject to change.

**REFUNDED OBLIGATIONS . . .** The principal and interest due on the Refunded Obligations are to be paid on the scheduled redemption date of such Refunded Obligations, from funds to be deposited pursuant to an escrow agreement (the "Escrow Agreement") between the City and The Bank of New York Mellon Trust Company, N.A. (the "Escrow Agent"). The Bond Ordinance provides that from the proceeds of the sale of the Bonds received from the Initial Purchasers, together with other funds of the City, if any, the City will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Obligations on their redemption date as described in "Schedule I - Schedule of Refunded Obligations". Such funds will be held by the Escrow Agent in a separate special escrow account (the "Escrow Fund"). FirstSouthwest, acting as financial advisor to the City, will provide a sufficiency certificate (the "Sufficiency Certificate") as to the sufficiency of the funds to be deposited with the Escrow Agent for the redemption of the Refunded Obligations. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations and amounts therein will not be available to pay the Obligations.

By deposit of the cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of all the Refunded Obligations in accordance with State law and in reliance upon the Sufficiency Certificate. It is the opinion of Bond Counsel that, as a result of such defeasance and in reliance upon the Sufficiency Certificate, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the cash held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the City payable from taxes nor for the purpose of applying any limitation on the issuance of debt, and the City will have no further responsibility with respect to amounts available in the Escrow Funds for the payment of the Refunded Obligations from time to time.

## **THE OBLIGATIONS**

**DESCRIPTION OF THE OBLIGATIONS . . .** The Obligations are dated May 1, 2017, and mature on February 15 in each of the years and in the amounts shown on page 2 and page 4 hereof. Interest will accrue from the date of initial delivery thereof (the "Delivery Date"), will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on August 15 and February 15 of each year, commencing August 15, 2017 for the Bonds and commencing February 15, 2018 for the Certificates, until maturity or prior redemption. The definitive Obligations will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Obligations will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Obligations will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Obligations. See "The Obligations - Book-Entry-Only System" herein.

**AUTHORITY FOR ISSUANCE . . .** The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapters 1207, 1371 and 1331, Texas Government Code, as amended, and the Bond Ordinance.

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and Texas Government Code, Chapter 1371, as amended, and the Certificate Ordinance.

## **SECURITY AND SOURCE OF PAYMENT . . .**

*The Bonds . . .* The Bonds constitute direct obligations of the City and the principal thereof and interest thereon are payable from an annual ad valorem tax levied by the City, within the limits prescribed by law, upon all taxable property in the City, as provided in the Bond Ordinance.

*The Certificates . . .* The Certificates constitute direct obligations of the City, payable from a combination of (i) a direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge (not to exceed \$1,000) of surplus net revenues of the City's Utility System (consisting of the electric system and the waterworks and sewer system).

**TAX RATE LIMITATION . . .** All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt, including the Obligations, within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of \$2.50 per \$100 Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt, as calculated at the time of issuance and based on 90% tax collection factor.

**OPTIONAL REDEMPTION . . .** The City reserves the right, at its option, to redeem the Obligations having stated maturities on and after February 15, 2028 in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2027 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds or Certificates are to be redeemed, the City may select the maturities of Bonds or Certificates, as the case may be, to be redeemed. If less than all the Bonds or Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds

or Certificates, as the case may be, are in Book-Entry-Only form) shall determine by lot the Bonds or Certificates, or portions thereof, within such maturity to be redeemed. If a Bond or Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond or Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

With respect to any optional redemption of the Bonds or Certificates, as the case may be, unless certain prerequisites to such redemption required by the respective Ordinance have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds or Certificates, as the case may be, to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption will, at the option of the City, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the City will not redeem such Bonds or Certificates, as the case may be, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that the Bonds or Certificates, as the case may be, have not been redeemed.

**NOTICE OF REDEMPTION . . .** Not less than 30 days prior to a redemption date for the Obligations, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Obligations to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. IF AN OBLIGATION (OR ANY PORTION OF ITS PRINCIPAL SUM) SHALL HAVE BEEN DULY CALLED FOR REDEMPTION AND NOTICE OF SUCH REDEMPTION DULY GIVEN, THEN UPON THE REDEMPTION DATE SUCH OBLIGATION (OR THE PORTION OF ITS PRINCIPAL SUM TO BE REDEEMED) SHALL BECOME DUE AND PAYABLE, AND, IF MONIES FOR THE PAYMENT OF THE REDEMPTION PRICE ARE HELD FOR THE PURPOSE OF SUCH PAYMENT BY THE PAYING AGENT/REGISTRAR AND ALL OTHER CONDITIONS TO REDEMPTION ARE SATISFIED, INTEREST SHALL CEASE TO ACCRUE AND BE PAYABLE FROM AND AFTER THE REDEMPTION DATE ON THE PRINCIPAL AMOUNT REDEEMED.

**DEFEASANCE . . .** The Ordinances provide that any Obligation and the interest thereon shall be deemed to be paid, retired, and no longer outstanding (a "Defeased Obligation") within the meaning of such Ordinance when payment of the principal of such Obligation, plus interest thereon to the due date 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 for such payment (1) lawful money of the United States of America sufficient to make such payment or (2) Government Obligations which 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 City with the Paying Agent/Registrar for the payment of its services until all Defeased Obligations shall have become due and payable, and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Government Obligations. At such time as an Obligation shall be deemed to be a Defeased Obligation hereunder, as aforesaid, such Obligation and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes herein levied and pledged as provided in the Ordinance, and such principal and interest shall be payable solely from such money or Government Obligations.

Any moneys so deposited with the Paying Agent/Registrar may at the written direction of the City also be invested in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from such Government Obligations received by the Paying Agent/Registrar which is not required for the payment of the Obligations and interest thereon, with respect to which such money has been so deposited, shall be turned over to the City, or deposited as directed in writing to the City. The Ordinances provide that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the City Council approves such defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the City Council approves such defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and (d) any other then authorized securities or obligations under applicable Texas state law that may be used to defease obligations such as the Obligations. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Obligations. Because the Ordinances do not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that any particular rating for U.S. Treasury securities used as Government Obligations or the rating for any other Government Obligations will be maintained at any particular rating category.

Upon such deposit as described above, such Defeased Obligations shall no longer be regarded to be outstanding obligations payable from ad valorem taxes levied by the City or from the other revenues pledged to their payment in the Ordinances, but will be payable only from the funds and Government Obligations deposited in escrow and will not be considered debt of the City for any purpose. After firm banking and financial arrangements for the discharge and final payment or redemption of the Obligations have been made as described above, all rights of the City to initiate proceedings to call the Obligations for redemption or take any other action amending the terms of the Obligations are extinguished; provided, however, that the right to call the Obligations for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Obligations for redemption; and (ii) gives notice of the reservation of that right to the owners of the Obligations immediately following the making of the firm banking and financial arrangements; (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

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

DTC will act as securities depository for the Obligations. The Obligations will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Obligations in the aggregate principal amount thereof and will be deposited with DTC.

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

Purchases of Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Obligations on DTC's records. The ownership interest of each actual purchaser of each Obligation ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interest in the Obligations are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Obligations, except in the event that use of the book-entry system for the Obligations is discontinued.

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

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

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

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

Payments on the Obligations will be made to DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to DTC is the responsibility of the City, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

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

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

**EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM . . .** In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed Obligations will be issued to the holders and the Obligations will be subject to transfer, exchange and registration provisions as set forth in the Ordinances and summarized under "The Obligations - Transfer, Exchange and Registration" below.

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

In the event the use of the Book-Entry-Only system is discontinued, principal of the Bonds and Certificates is payable to the registered holder appearing on the registration books of the Paying Agent/Registrar (the "Registered Owner") at the designated corporate trust office of the Paying Agent/Registrar upon surrender of the Bonds and Certificates for payment; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Obligations, all payments will be made as described under "The Obligations - Book-Entry-Only System" herein. Interest on the Bonds and Certificates is payable to the Register Owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (identified below) and such interest shall be paid by the Paying Agent/Registrar by check mailed, first class postage prepaid, to the Register Owner or by such other arrangement, acceptable to the Paying Agent/Registrar, requested by and at the risk and

expense of the Registered Owner. If the date for the payment of the principal of or interest on the Bonds and Certificates shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated corporate office of the Paying Agent/Registrar is located is 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 when 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.

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

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

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

**AMENDMENTS . . .** In each Ordinance, the City has reserved the right to amend the Ordinance without the consent of any holder of the respective Obligation for the purpose of amending or supplementing the Ordinance to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Ordinance that do not materially adversely affect the interests of the holders, (iv) qualify the Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Ordinance that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the City, do not materially adversely affect the interests of the holders.

Each Ordinance further provides that the holders of the Bonds or Certificates, as applicable, aggregating in principal amount a majority of the outstanding Bonds or Certificates, as the case may be, shall have the right from time to time to approve any amendment not described above to the applicable Ordinance if it is deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the holders in original principal amount of the then outstanding Bonds or Certificates so affected, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds or Certificates; (ii) reducing the rate of interest borne by any of the outstanding Bonds or Certificates; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds or Certificates; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Bonds or Certificates, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Bonds or Certificates necessary for consent to such amendment. Reference is made to the Ordinances for further provisions relating to the amendment thereof.

**REMEDIES . . .** Each Ordinance establishes specific events of default with respect to the respective series of Obligations. If the City defaults in the payment of the principal of or interest on the Bonds or Certificates when due or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners thereof, including but not limited to, their prospect or ability to be repaid in accordance with the respective Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, each Ordinance provides that any registered owner of a respective Obligation is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at

law to compel performance of the respective Obligations or Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Obligations in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinances do not provide for the appointment of a trustee to represent the interest of the owners of the respective Obligations upon any failure of the City to perform in accordance with the terms of the Ordinances, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia* 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, owners of Obligations may not be able to bring such a suit against the City for breach of the Obligations or Ordinance covenants in the absence of City action. Chapter 1371, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing its debt, but in connection with the issuance of the Obligations, the City has not waived sovereign immunity. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the Registered Owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds or the Certificates. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Obligationholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Obligations are qualified with respect to the customary rights of debtors relative to their creditors, by principles of governmental immunity, and by general principles of equity which permit the exercise of judicial discretion.

Initially, the only Registered Owner of the Bonds and Certificates will be Cede & Co., as DTC's nominee. See "The Obligations - Book-Entry-Only System" herein for a description of the duties of DTC with regard to ownership of the Bonds and Certificates.

## TAX INFORMATION

**AD VALOREM TAX LAW . . .** The appraisal of property within the City is the responsibility of the Denton Central Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under V.T.C.A., Title I, Tax Code, as amended (the "Property Tax Code") to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed the lesser of (1) the market value of the property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value in the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

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

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

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

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

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

Under Article VIII and State law, the governing body of a county, municipality or junior college district may provide for a freeze on total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, the total amount of taxes imposed on such homestead cannot be increased except for improvements (other than maintenance, repairs or improvements required to comply with governmental requirements) and such freeze is transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse. Once established such freeze cannot be repealed or rescinded.



State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000, dependent upon the degree of disability or whether the exemption is applicable to a surviving spouse or children; provided, however, that beginning in the 2009 tax year, a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. In addition, effective January 1, 2012, and subject to certain conditions, surviving spouses of a deceased veteran who had received a disability rating of 100% will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

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

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

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Notwithstanding such exemption, counties, school districts, junior college districts and cities may tax such tangible personal property provided official action to tax the same was taken before April 1, 1990. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by Section 11.253 of the Property Tax Code, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. Section 11.253 permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax "goods-in-transit" during the following tax year. After taking such official action, the goods-in-transit remain subject to taxation by the local governmental entity until the governing body of the governmental entity rescinds or repeals its previous actions to tax goods-in-transit. A taxpayer may only receive either the freeport exemption or the "goods-in-transit" exemption for items of personal property.

The City or Denton County may create one or more tax increment financing districts ("TIF") within the City or Denton County, as applicable, and freeze the taxable values of property in the TIF at the value at the time of its creation. Other overlapping taxing units levying taxes in the TIF may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIF in excess of the "frozen values" to pay or finance the costs of certain public improvements in the TIF. Taxes levied by the City against the values of real property in the TIF in excess of the "frozen" value are not available for general city use but are restricted to paying or financing "project costs" within the TIF. The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. The City has active reinvestment zones for tax abatements and tax increment financing zones for tax increment financing purposes. See "Tax Information - Tax Abatement Policy" and "- Tax Increment Financing" and "Table 1 - Valuation, Exemptions and General Obligation Debt".

The City is also authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes, however no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City. The City has entered into several Chapter 380 Agreements. See "Tax Information - Chapter 380 Agreements".

**EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . .** Under the current Property Tax Code a governing body of a taxing unit is required to adopt its annual tax rate per \$100 taxable value for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per \$100 taxable value for the current year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

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

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

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

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

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

**PROPERTY ASSESSMENT AND TAX PAYMENT . . .** Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process that uses pricing information contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

**PENALTIES AND INTEREST . . .** Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

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

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

**PENDING LEGISLATION . . .** The Texas Legislature is currently in session for its 85th Regular Session (the "Regular Session"), which ends on May 29, 2017. While in session, the Texas Legislature may consider bills which could have a direct impact on the City and its operations, including the levying and collection of ad valorem taxes by the City. The City makes no representations or predictions concerning the substance or effect of any legislation that may be proposed and ultimately passed in the Regular Session or any special session that may convene after the end of the Regular Session, or how any such legislation would affect the financial condition of the City or its operations.

**CITY APPLICATION OF TAX CODE . . .** The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$50,000. Disabled taxpayers also receive a \$50,000 exemption.

The City grants an additional one-half of one percent, or a minimum of \$5,000 exemption of the market value of residence homesteads.

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

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt. The City does not tax nonbusiness personal property.

Denton County began collecting taxes for the City during the fiscal year 2006-07.

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

The City does not tax freeport property.

The City collects the additional one-half cent sales tax for reduction of ad valorem taxes.

The City does tax "goods-in-transit".

The City has not adopted the tax freeze for citizens who are disabled or are 65 years of age or older. However, the City has received a qualifying petition of the registered voters of the City which requires the City to hold an election to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of disabled persons or persons 65 years of age or older. Such election will be held May 6, 2017.

The City has adopted a tax abatement policy.

The City participates in two tax increment reinvestment zones, which were created in 2010 and 2012.

**TAX INCREMENT FINANCING . . .** The City created Tax Increment Reinvestment Zone Number One (known as the Downtown TIF) in 2010. The TIF will expire in 2039 and reflects only the City's participation of: 100% for years 1-5; 95% for years 6-10; 90% for years 11-20; and 85% for years 21-30. According to Denton Central Appraisal District "DCAD" supplemental figures, the 2016 total appraised valuation of taxable real property in TIRZ Number One was \$150.0 million. This represents a \$22.8 million increase from the 2015 supplemental value of \$127.2 million. Since its inception, the value of the TIRZ has increased \$56.7 million, which represents a 71.4% increase in valuation.

The City created Tax Increment Reinvestment Zone Number Two (known as the Westpark TIRZ) in 2012 to provide the public infrastructure necessary to encourage development in the largest industrially zoned area (Westpark) in the City. The 2012 certified base value of Westpark TIRZ, according to the Denton Central Appraisal District, is \$119,458. The estimated revenue to be generated by the TIRZ is approximately \$14.3 million over a 25 year period for infrastructure improvements. The City will contribute \$10.1 million and Denton County will contribute \$4.2 million into the Westpark TIRZ fund. According to DCAD supplemental figures, the 2016 total appraised valuation of taxable real property in TIRZ Number Two was \$2.4 million. This is a \$2.3 million increase from the 2012 base value of 119,458.

**PUBLIC IMPROVEMENT DISTRICTS . . .** The City created Rayzor Ranch Public Improvement District No. 1 (the "District") in 2014 for the undertaking and financing of public improvements authorized by Chapter 372 of the Texas Local Government Code. The project is located on the City's northern sector, east of Interstate 35, and encompasses approximately 229.693 contiguous acres. The estimated cost of the proposed public improvements total \$40 million, which may be paid for with special assessments levied on property within the District. The authorized improvement costs will be apportioned 100% to the District. The method of assessment will impose equal shares of the cost of the proposed public improvements on parcels that are similarly benefited. No City property will be assessed, and the City will not be obligated to pay any assessments.

**TAX ABATEMENT POLICY . . .** The City has a tax abatement and incentive policy; the most recent version was adopted in 2016. In 1990, the City council adopted a resolution setting guidelines and criteria for granting abatements in reinvestment zones created within the City. These guidelines specifically note that incentives are limited to companies which create new wealth and do not adversely affect existing businesses operating within the City. The City Council has approved the following tax abatement agreements:

- In 2010, a 65% tax abatement agreement for a term of five years was granted to Target Corporation for its 400,000 square foot frozen and refrigerated food distribution center. Target opened in March 2013 and employs 115 to 150 area residents.
- In 2011, a 40% tax abatement agreement for a term of five years was granted to Peerless Manufacturing for its 80,000 square foot, \$16 million manufacturing facility. Peerless is an existing Denton business that consolidated other

manufacturing operations to Denton. They completed construction of an 80,000 square foot manufacturing facility in October 2013. CECO Environmental purchased Peerless in late 2015. CECO leases all of its global manufacturing facilities, preferring 5-7-year leases to facility ownership and keeping its equity active in the production process. Consistent with its structure, CECO completed the sale of its Denton Peerless facility in June 2016. Consequently, the Tax Abatement with Peerless Manufacturing was terminated in 2016.

- In 2013, a 65% tax abatement agreement for a term of four years was granted to Tetra Pak Materials LP for expanding their facility and relocating their corporate headquarter operations from Chicago to Denton. The company manufactures, processes, packages and distributes liquid foods all over the globe. The current facility comprises approximately 220,000 square feet. The increase in real and business personal property valuation of the proposed project expansion is estimated at \$10.7 million. Tetra Pak Materials expects to create a total of thirty new jobs with this expansion. The company received their Certificate of Occupancy in February 2015.
- In 2015, a 70% tax abatement for a term of eight years was granted to Peterbilt Motors for a 17,500 square foot expansion of their current facility to improve material flow from trucks into the expanded metering center. Peterbilt's growth in 2014 has resulted in a 20% increase in employment and a 32% increase in production levels. These increases have also been the driving force behind similar growth of other businesses in Denton that support Peterbilt. This project received its Certificate of Occupancy for the expansion in February 2016. The final phase of this project included a storage and retrieval system for painted parts to help balance the product flow from paint to cab trim; it was completed in October 2016. Also, in 2016, the existing Agreement was amended to add the construction and equipping of a 102,000 square-foot stand-alone building north of the existing plant. This \$30 million dollar investment will provide space for a new cab product and will improve operational efficiencies; the building received its CO in December 2016. In 2016, West Gate Business Park received a 60% tax abatement for 10 years on improvements only to include Buildings 2 and 3 in the business park, which brings new Class A industrial/manufacturing space to Denton. West Gate could receive an additional 10% abatement for the location of a supplier to an existing primary industry and/or an additional 5% for the location of a national headquarters for a total abatement of up to 75%. The abatement will initiate the year following the year in which building 2 receives a CO.

**CHAPTER 380 AGREEMENTS . . .** The City has also entered into several Chapter 380 agreements. Each agreement is based on the project's contribution in either sales or property tax revenue. The City Council has approved the following Chapter 380 agreements:

- In 2001, an agreement was approved for the 450,000 square foot, \$50 million Denton Crossing retail center. The grantee receives one-third of the City sales tax generated by the project for a maximum of fifteen years as reimbursement for public improvement costs related to the project. The project was completed and the Chapter 380 Grant was initiated in 2005. The agreement will terminate in the spring of 2020.
- In 2004, an agreement was approved for Teasley Partners for an urban style mixed-use development. The grantee may receive one-third of the City sales tax generated by the project for a maximum of fifteen years as reimbursement for public improvement costs related to the project. The project has not been completed. Although a new hotel and some residential units have been completed, no qualifying retail has been constructed.
- In 2004, an agreement was approved for Unicorn Lake, an urban style mixed-use development. The grantee receives one-third of the City sales tax generated by the project for a maximum of fifteen years as reimbursement for public improvement costs related to the project. BJs Restaurant, Blue Ginger Japanese Bistro, Rising Sun Café, Chuy's and Bone Daddy's represent some of the businesses that have located in the development. Urban Square Apartments completed construction last fall and features 205 units. The agreement will terminate in 2024.
- In 2007, an agreement was approved for Allegiance Hillview for the Rayzor Ranch mixed-use development. The 410-acre project will have over 1 million square feet of retail and will be built in two phases. The agreement provides a sales tax reimbursement of 50% of the City sales taxes generated by the project for public improvement costs, which include the widening of a state highway that bisects the project. The grantee will receive a maximum of \$20 million over a 15 year term for phase one and a maximum of \$48 million over a term of 20 years for phase two. Rayzor Ranch Marketplace (north side of the development) has completed approximately 600,000 square feet of retail and commercial space. Some of the stores in the development include: Guitar Center and Taco Cabana. In 2016, Rayzor Ranch Marketplace was sold to FidCal/Fidelis Realty Partners (Rayzor Ranch 380 Associates). Construction is underway for the Rayzor Ranch Town Center located on the south side of the development. Heritage Trail Boulevard has been constructed to allow access to the next phases. Chili's, Raising Cane, WinCo Foods, In-N-Out Burger, Chipotle, and Firehouse Subs are now open. An 11-story, 318-room Embassy Suites hotel and 70,000 square foot Convention Center are planned to open in November 2017. An additional 15% sales tax rebate on the Rayzor Ranch Town Center and Marketplace have been added to offset the hotel and convention center until \$5 million is reached.
- In 2010, an agreement was approved for Grand Mesa, contractor for Schlumberger, equal to 50% of new property tax revenue generated for their 150,000 square foot regional maintenance facility. The agreement was assigned to Schlumberger Technology Corporation in 2012. Agreement thresholds require maintaining \$5 million in real property improvements and business personal property valuation and the creation of 80 jobs with average wage of \$45,000. The term of the agreement is seven years and will terminate in 2017.
- In 2011, an agreement was approved for a major renovation of the Golden Triangle Mall. A threshold of a minimum \$45 million must be invested into the property for the new owners to receive a 50% share of the sales tax resulting from

the renovations. The amended agreement allowed Golden Triangle Mall until October 1, 2015 to reach its investment threshold, which it did. The term of the agreement will terminate in 20 years. Exterior entrance updates, a new food court, pylon signs and wayfinding have been constructed as part of the second phase of the redevelopment. The Golden Triangle Mall J.C. Penney was one of the sites selected to include a Sephora and the Disney Store within the department store. An international retailer, H&M, and Francesca's opened in 2015. Bath and Body Works and Victoria's Secret expanded within the mall in 2016.

- In 2012, an agreement was approved for Mayday Manufacturing/Tailwind Technologies. The company manufactures precision bushings, sleeves, pins, and other machine parts used in the aerospace industry. Mayday subsidiary, High Tech Metal Refinishing is collocated with Mayday and provides metal finishing processes for Mayday products and for additional customers. The company purchased an 80,000 square foot facility in 2012 and completed the 15,000 square foot expansion of the facility at the close of 2013. The company received a 75%, ten-year tax rebate on increased valuation of at least \$3 million over the base value.
- In 2015, an agreement was granted to West Gate Business Park (WGBP). The industrial development received a 70% rebate of City ad valorem taxes attributable to Improvements only for a period of ten years. The grant also included a one-time payment in the amount of \$50,000. An amendment in 2016 applies the rebate to Building 1 only, while the planned Buildings 2 and 3 will be covered under a tax abatement.
- In 2015, a grant agreement was awarded to Business Air. The grant is equal to 70% of the increase in property tax revenues on the improvements to the building and new business personal property up to a maximum of \$9.5 million in increased valuation for a period of two years. The company may extend the length of this grant by attracting additional investment in the form business aircraft based at its facilities at the Denton Enterprise Airport by specified date and investment level thresholds. In addition to a grant extension, Business Air would receive five percent of the increase in taxable valuation attributable to these new business aircraft for the duration of the grant extension. Business Air is a full service FBO and certified FAR 135 Air Carrier providing fuel, hangar, charter, and aircraft management services to corporate and private clients at the Denton Enterprise Airport. The company is expanding with plans to build a new 24,000 square foot hangar with an additional 4,000 square feet of office space. The hangar space should allow the addition of 10 corporate aircraft with values ranging from \$1.5 to \$10 million per aircraft. In addition to the hangar, Business Air will be purchasing a corporate aircraft to be based at the airport for the exclusive use of providing air taxi service to the area.
- In 2015, an agreement was approved for Victor Technologies, a global manufacturer of gas control and specialty welding solutions. The original San Francisco manufacturing operations were relocated to their new headquarters in Denton in the mid-1960s. Victor Technologies has expanded its existing facility, including approximately 30,000 square feet of new Research and Development space Along with a new 185,400 square foot warehouse and remodeled parking lots. Victor has approximately 500 employees at the facility. Over the next three years, Victor is expected to create an additional 100 new jobs. Victor Technologies received an incentive equal to 65% of the increase in the City's ad valorem taxes for seven years while maintaining a minimum of 85 percent of new jobs created with an average wage of \$28.81 per hour.
- In 2015, an incentive was awarded to WinCo Foods for a \$135 million, 800,000+/- square foot distribution facility located on approximately 77 acres in the Westpark TIRZ. The project received its CO in January 2017 and is expected to create 165 jobs with an annual payroll of around \$7.2 million. The Agreement accomplishes two objectives: (1) full reimbursement of the cost of Phase 1 improvements using a combination of funding mechanisms; and (2) after full reimbursement, an economic development incentive of 60% of the City's ad valorem tax revenue for a period of four years following full reimbursement of Phase 1 improvements.

It is anticipated that full reimbursement will occur in approximately four years and will be an approximately \$6.5 million. The first year after full reimbursement, the second term of the grant agreement shall commence, and will include the following: a 60% rebate of the City's ad valorem revenue for a period of four years, for an estimated total incentive of \$1.7 million.

In 2015, an agreement was granted to the Railyard downtown project that is located in the Downtown TIF, Downtown Implementation Plan "DTIP" and Transit Oriented Development "TOD" areas. Rail Yard Partners, LTD. renovated an existing 28,000 square foot building as a part of a larger transit-oriented catalyst project. They invested an initial \$12 million in the co-working and mixed-use space and will receive a total incentive of \$380,000 over five years from the Downtown TIF revenue. The project involves a Commercial Lease Agreement with Rail Yard Partners, LTD for Stoke Denton, a 9,000 square foot entrepreneur center that provides coworking and office space, education and mentorship, and community for Denton's technology focused businesses. The Commercial Lease Agreement is a five year lease at \$9.75 per square foot for year one, with an approximate 3.7% increase in the cost annually thereafter, in addition to operating expenses including the City's pro rata share of real estate taxes, insurance, common area maintenance, and operating expenses.

- In 2015 an incentive was awarded to Buc-ee's Travel Center that will include an approximately 53,000 square foot retail store, fuel stations, car wash and peripheral development along I-35E. The incentive reimburses the developer for public infrastructure improvements and other neighborhood/public amenities. The proposed development has resulted in the Texas Department of Transportation "TxDOT" advancing several mobility improvements to the intersections of Loop 288/Lillian Miller and I-35E, Mayhill Road and I-35E, and Brinker Road and I-35E. These improvements will enhance mobility and address traffic congestion and will be completed in the spring of 2018. In order to facilitate these improvements, TxDOT requires a local funding match of \$2 million. The developer will fund the \$2 million, to be reimbursed as a part of the incentive agreement. Additionally, the developer will incur

approximately \$5.2 million in public infrastructure costs, including water, wastewater, storm sewer, right-of-way dedication, and constructing a new city street. The City has granted an incentive of 50% sales tax rebate for 25 years, on the Buc-ee's parcel as well as the outparcels. The first phase consists of 50% for 5 years for infrastructure improvements. The second phase grants a 50% sales tax rebate for the Buc-ee's travel center, retail and sit down restaurants; and 25% on remaining fast food and service.

- In 2015 an incentive was awarded to O'Reilly Hotel Partners Denton's "OHPD" for a convention center and hotel. Development plans include the construction of a 318-room Embassy Suites hotel, an approximately 70,000 square foot convention center, and a Houlihan's restaurant. The anticipated convention center meeting space is approximately 37,850 square feet and would accommodate conventions with up to 650 participants with a Grand Banquet room that will hold up to 1,750 people for banquet-style events. The hotel and convention center will be managed by O'Reilly Hospitality Management "OHM".

The convention center and hotel will be located in the Rayzor Ranch Town Center. As a major anchor for the Town Center, the convention center and hotel can capitalize on the synergy associated with the planned shopping, entertainment, and restaurants located nearby. The facility is under construction and scheduled to open in November 2017.

The agreement includes a 100% rebate of the ad valorem tax, hotel occupancy tax, and sales tax generated by the project. The term is for a maximum of 25 years or until the combined principal amount of \$28 million and interest payment of \$26 million, for a total aggregate amount of \$54 million, is reached, whichever comes first. The incentive also includes 100% of the construction sales and use tax up to \$850,000, at which time the grant will be reduced to 50%.

- In 2015, US Aviation Group was awarded a three-year, 70% incentive on the increment of improvements and new business personal property to support the expansion of its commercial pilot and Defense Department contract pilot training activities. USAG invested about \$10.7 million in an expansion of its existing flight simulation training space as well as the purchase of additional simulation equipment and aircraft.
- In 2016, Sally Beauty Supply, LLC was awarded a three-year, 50% incentive on the increment of improvements to its facility at 3900 Morse Street in Denton. Sally's international corporate headquarters has been located in Denton since 1982, and the company has more than 5,000 stores and 10 distribution centers worldwide. The improvements at Morse Street will allow Sally Beauty to house 80 new or relocated employees.

**TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT**

2016/17 Market Valuation Established by Denton Central Appraisal District		\$ 10,402,656,564
Less Exemptions/Reductions at 100% Market Value:		
Residence Homestead Exemptions	\$ 88,848,080	
Over 65 Exemptions	327,388,062	
Disabled Persons Exemptions	2,444,485	
Disabled Veterans Exemptions	48,047,888	
Agricultural Land Use Productivity	304,254,344	
Historical/Other Exemptions	4,502,078	
Freeport Exemptions	208,186,573	
Abatement Exemptions	131,784,454	
Police Patrol Vehicle Exemptions	233,221	
Pollution Exemptions	17,907,977	
Homestead Cap Adjustment	<u>96,808,909</u>	<u>1,230,406,071</u>
2016/17 Taxable Assessed Valuation (as of 7-22-2016)		\$ 9,172,250,493
2016/17 Incremental Taxable Assessed Value of Real Property within Reinvestment Zones		<u>(54,744,149)</u>
2016/17 Net Taxable Assessed Valuation available for General Obligations and Debt of City (as of 7-22-16)		<u><u>\$ 9,117,506,344</u></u>
City Funded Debt Payable from Ad Valorem Taxes		
General Obligation Bonds (as of 3-1-17)	\$ 216,840,000 <sup>(1)</sup>	
Certificates of Obligation (as of 3-1-17)	389,670,000	
Tax and Utility System Revenue Debt (as of 3-1-17)	36,435,000	
The Bonds	29,220,000 <sup>(2)</sup>	
The Certificates	<u>94,485,000 <sup>(2)</sup></u>	
Funded Debt Payable from Ad Valorem Taxes		\$ 766,650,000
Less Self-Supporting General Obligation Debt <sup>(3)</sup>		
Solid Waste System General Obligation Debt	\$ 56,202,337 <sup>(4)</sup>	
Utility System General Obligation Debt	<u>542,540,000 <sup>(4)</sup></u>	<u>598,742,337</u>
Net Tax Supported Debt Payable from Ad Valorem Taxes		<u><u>\$ 167,907,663</u></u>
Interest and Sinking Fund as of 3-1-17 (estimated)		\$ 7,628,324
Ratio Total Funded Debt to Net Taxable Assessed Valuation . . . . .		8.41%
Ratio Net Funded Debt to Net Taxable Assessed Valuation . . . . .		1.84%
2017 Estimated Population - 124,988		
Per Capita Net Taxable Assessed Valuation - \$72,947		
Per Capita Total Funded Debt - \$6,134		
Per Capita Net Funded Debt - \$1,343		

(1) Excludes the Refunded Obligations. Preliminary, subject to change.

(2) Preliminary, subject to change.

(3) As a matter of policy, the City pays debt service on its general obligation debt issued to fund improvements to its Utility System and Solid Waste System from surplus revenues of these Systems (see "Table 7 – General Obligation Debt Service Requirements" and "Table 9 – Computation of Self-Supporting Debt"). This policy may be subject to change in the future.

The City's Utility System is comprised of the City's entire existing electric, light and power system and the waterworks and sewer system. Drainage is managed under the waterworks and wastewater system. The City's Utility System General Obligation Debt has been issued to finance or refinance Utility System improvements and contractual obligations and is paid, or is expected to be paid, from Utility System revenues. In addition, the City has \$214,890,000 Utility System Revenue Bonds outstanding payable from a pledge of Utility System revenues.

The City's Solid Waste System General Obligation Debt has been issued to finance or refinance Solid Waste System improvements and is paid, or is expected to be paid, from Solid Waste System revenues. The City has no outstanding Solid Waste System Revenue Bonds.

(4) Includes a portion of the Bonds and a portion of the Certificates. Preliminary, subject to change.

**TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY <sup>(1)</sup>**

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2017		2016		2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single Family	\$ 5,050,316,875	48.55%	\$ 4,455,409,227	46.50%	\$ 4,062,947,070	45.57%
Real, Residential, Multi-Family	1,247,987,048	12.00%	1,242,659,794	12.97%	1,089,958,543	12.23%
Real, Vacant Lots/Tracts	183,550,766	1.76%	200,531,094	2.09%	180,886,051	2.03%
Real, Acreage (Land Only)	313,050,791	3.01%	299,567,590	3.13%	299,966,303	3.36%
Real, Farm and Ranch Improvements	119,724,601	1.15%	111,308,374	1.16%	95,625,308	1.07%
Real, Commercial and Industrial	2,023,976,712	19.46%	1,932,405,225	20.17%	1,829,135,437	20.52%
Real, Oil, Gas, and Other Mineral Reserves	60,792,028	0.58%	127,737,402	1.33%	93,196,666	1.05%
Real and Tangible Personal, Utilities	64,350,693	0.62%	64,179,367	0.67%	91,139,063	1.02%
Tangible Personal, Commercial and Industrial	1,236,965,926	11.89%	1,075,139,088	11.22%	1,091,736,374	12.25%
Tangible Personal, Other	22,215,017	0.21%	21,987,482	0.23%	21,761,614	0.24%
Real and Special Property, Inventory	79,726,107	0.77%	51,485,367	0.54%	58,971,257	0.66%
Total Appraised Value Before Exemptions	\$ 10,402,656,564	100.00%	\$ 9,582,410,010	100.00%	\$ 8,915,323,686	100.00%
Less: Total Exemptions/Reductions	(1,230,406,071)		(1,119,263,250)		(1,118,146,078)	
Less: Tax Increment Value	(54,744,149)		(39,084,154)		(35,975,197)	
Net Taxable Assessed Value	<u>\$ 9,117,506,344</u>		<u>\$ 8,424,062,606</u>		<u>\$ 7,761,202,411</u>	

  

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2014		2013	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single Family	\$ 3,720,193,268	35.76%	\$ 3,633,577,302	47.68%
Real, Residential, Multi-Family	924,229,117	8.88%	816,319,292	10.71%
Real, Vacant Lots/Tracts	150,027,306	1.44%	125,343,528	1.64%
Real, Acreage (Land Only)	274,941,322	2.64%	338,412,791	4.44%
Real, Farm and Ranch Improvements	80,481,975	0.77%	37,671,587	0.49%
Real, Commercial and Industrial	1,621,678,792	15.59%	1,520,034,393	19.94%
Real, Oil, Gas, and Other Mineral Reserves	78,106,929	0.75%	107,460,964	1.41%
Real and Tangible Personal, Utilities	91,097,444	0.88%	90,748,500	1.19%
Tangible Personal, Commercial and Industrial	943,996,533	9.07%	884,681,448	11.61%
Tangible Personal, Other	15,167,604	0.15%	16,249,794	0.21%
Real Property, Inventory	62,732,470	0.60%	50,894,577	0.67%
Total Appraised Value Before Exemptions	\$ 7,962,652,760	76.54%	\$ 7,621,394,176	100.00%
Less: Total Exemptions/Reductions	(983,428,486)		(904,682,808)	
Less: Tax Increment Value	(16,931,096)		(10,248,781)	
Net Taxable Assessed Value	<u>\$ 6,962,293,178</u>		<u>\$ 6,706,462,587</u>	

(1) Valuations shown are certified taxable assessed values reported by the Denton Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records. For the Fiscal Year ended 2017, the values were reported on July 22, 2016 based on information as of January 1, 2016.



**TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY**

Fiscal Year Ended	Estimated Population <sup>(1)</sup>	Net Taxable Assessed Valuation <sup>(2)</sup>	Net Taxable Assessed Valuation Per Capita	Net Tax Debt Outstanding at End of Year <sup>(8)</sup>	Ratio Net Tax Debt to Net Taxable Assessed Valuation	Net Funded Tax Debt Per Capita
9/30						
2013	117,397	\$ 6,706,462,587 <sup>(3)</sup>	\$ 57,126	\$ 120,375,588	1.79%	\$ 1,025
2014	119,158	6,962,293,178 <sup>(4)</sup>	58,429	123,827,115	1.78%	1,039
2015	120,945	7,761,202,411 <sup>(5)</sup>	64,171	135,879,058	1.75%	1,123
2016	122,759	8,424,062,606 <sup>(6)</sup>	68,623	144,036,173	1.71%	1,173
2017	124,988	9,117,506,344 <sup>(7)</sup>	72,947	167,907,663 <sup>(9)</sup>	1.84%	1,343

(1) Source: City Officials.

(2) Valuations shown are certified taxable assessed values reported by the Denton Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records. Source: Denton Central Appraisal District as of July 22, 2016.

(3) Excludes tax incremental value of approximately \$10,248,781 that is not available for the City's general obligations and debt of City.

(4) Excludes tax incremental value of approximately \$16,931,096 that is not available for the City's general obligations and debt of City.

(5) Excludes tax incremental value of approximately \$35,975,197 that is not available for the City's general obligations and debt of City.

(6) Excludes tax incremental value of approximately \$39,084,154 that is not available for the City's general obligations and debt of City.

(7) Excludes tax incremental value of approximately \$54,744,149 that is not available for the City's general obligations and debt of City.

(8) Excludes self-supported general obligation debt.

(9) Projected. Includes a portion of the Bonds and Certificates. Excludes the Refunded Obligations. Preliminary, subject to change.

**TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY**

Fiscal Year Ended	Tax Rate	Distribution		Tax Levy <sup>(1)</sup>	% Current Collections	% Total Collections
9/30		General Fund	Interest and Sinking Fund			
2013	\$ 0.68975	0.47088	\$ 0.21887	\$ 46,984,330	99.26%	99.74%
2014	0.68975	0.47480	0.21495	48,436,040	99.27%	99.73%
2015	0.68975	0.48119	0.20856	53,661,933	99.70%	99.61%
2016	0.68975	0.47456	0.21519	58,634,172	99.40%	99.40%
2017	0.68334	0.46674	0.21660	62,606,588	96.72% <sup>(2)</sup>	96.72% <sup>(2)</sup>

(1) Tax levy for the year 2017 is based on the adjusted certified value. Prior years represent adjusted values that include all supplements through September 30, 2016. Includes tax incremental reinvestment zone revenues.

(2) Collections through March 1, 2017 (partial year).

**TABLE 5 - TEN LARGEST TAXPAYERS <sup>(1)</sup>**

Name of Taxpayer	Nature of Property	2016/17 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Well Services Division of STC	Services/ Manufacturing	\$152,349,530	1.66%
Paccar Inc.	Diesel Truck Manufacturing	101,024,543	1.10%
Columbia Medical Center of Denton	Hospital/Professional Building	86,120,882	0.94%
Inland Western Denton Crossing Ltd PS	Real Estate Development	52,782,340	0.58%
Cypress Denton Station LTD	Residential Multifamily	52,416,833	0.57%
Timber Links Apts. LP	Apartment Complexes	43,509,314	0.47%
Razor Ranch Market Place LP	Shopping Center	40,220,266	0.44%
HRA University Courtyard LLC	Apartments	34,935,824	0.38%
GTM Development LTD	Shopping Center	30,446,286	0.33%
GTE Southwest, Inc.	Telephone Utility	29,347,570	0.32%
		<u>\$ 623,153,388</u>	<u>6.79%</u>

(1) Source: Denton Central Appraisal District.

**GENERAL OBLIGATION DEBT LIMITATION** . . . No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "The Obligations – Tax Rate Limitation" for a description of the limitations on ad valorem tax rates).

**TABLE 6 - ESTIMATED OVERLAPPING TAX DEBT**

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain entities listed may have issued additional Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction	2016/17 Taxable Assessed Value	2016/17 Tax Rate	Total Funded Debt	Estimated % Applicable	City's Overlapping Funded Debt As of 3-1-17	Authorized But Unissued Debt As Of 3-1-17
City of Denton	\$ 9,172,250,493 <sup>(1)</sup>	\$ 0.68334	\$ 167,907,663 <sup>(2)</sup>	100.00%	\$ 167,907,663 <sup>(2)</sup>	\$ 53,785,000 <sup>(3)</sup>
Denton Independent School District	12,758,213,322	1.54000	862,652,256	63.71%	549,595,753	-
Denton County	78,259,024,841	0.24840	608,895,000	12.48%	75,990,096	118,408,296
Argyle Independent School District	1,360,020,910	1.57000	88,840,743	11.72%	10,412,135	-
Aubrey Independent School District	741,069,420	1.51000	49,189,229	0.13%	63,946	-
Krum Independent School District	669,310,010	1.54000	43,987,751	5.95%	2,617,271	-
Pilot Point Independent School District	556,020,211	1.37000	17,805,000	0.15%	26,708	-
Ponder Independent School District	555,657,742	1.46780	21,395,000	1.39%	297,391	-
Sanger Independent School District	849,493,050	1.37210	22,093,438	0.53%	117,095	50,000
Total Direct and Overlapping Funded Debt					<u>\$ 807,028,057</u>	
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation.....					8.80%	
Per Capita Overlapping Funded Debt.....					\$ 5,738.76	

(1) Includes tax incremental value of approximately \$54,744,149 that is not available for the City's general obligations and debt of City.

(2) Includes a portion of the Obligations. Excludes the Refunded Obligations and self-supporting debt. See Tables 1 and 9 herein for more detailed information on the City's general obligation self-supporting debt. Preliminary, subject to change.

(3) Reflects remaining authorization after the issuance of the Bonds.

**TABLE 7 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**

Fiscal Year Ended 9/30	Outstanding Debt Service <sup>(1)</sup>		The Bonds <sup>(2)</sup>		The Certificates <sup>(3)</sup>		Total Outstanding Debt	Less: Self- Supporting Solid Waste Debt Service <sup>(4)</sup>	Less: Self- Supporting Utility Debt Service <sup>(4)</sup>	Total Debt Service Requirements	% of Principal Retired
	Principal	Interest	Principal	Interest	Principal	Interest					
2017	\$ 46,030,000	\$ 29,087,381	\$ -	\$ 203,035	\$ -	\$ -	\$ 75,320,416	\$ 8,056,056	\$ 46,914,293	\$ 20,350,067	
2018	45,870,000	26,478,326	4,020,000	1,098,513	3,985,000	4,807,290	86,259,129	9,652,277	54,036,017	22,570,834	
2019	48,170,000	24,309,176	3,490,000	930,863	4,920,000	3,863,744	85,683,783	9,101,596	55,736,738	20,845,449	
2020	49,400,000	22,047,870	2,885,000	771,488	5,175,000	3,611,369	83,890,726	8,554,519	55,684,475	19,651,732	
2021	44,930,000	19,843,283	2,985,000	624,738	5,445,000	3,345,869	77,173,889	7,076,986	51,593,063	18,503,840	33.60%
2022	42,415,000	17,775,126	2,110,000	497,363	5,720,000	3,066,744	71,584,233	5,876,854	48,895,019	16,812,360	
2023	38,960,000	15,882,245	730,000	433,663	1,975,000	2,874,369	60,855,276	3,558,239	43,890,250	13,406,788	
2024	37,230,000	14,180,605	750,000	411,463	2,075,000	2,773,119	57,420,186	3,173,981	41,540,300	12,705,905	
2025	34,875,000	12,626,606	775,000	388,588	2,185,000	2,666,619	53,516,812	3,026,266	38,856,300	11,634,245	
2026	27,825,000	11,315,659	800,000	364,963	2,300,000	2,554,494	45,160,115	2,805,925	31,528,213	10,825,977	57.89%
2027	27,585,000	10,166,931	825,000	340,588	2,420,000	2,436,494	43,774,012	2,428,781	31,250,528	10,094,702	
2028	25,985,000	9,065,187	850,000	315,463	2,340,000	2,317,494	40,873,143	2,270,066	30,115,444	8,487,634	
2029	24,735,000	8,036,612	875,000	289,588	2,460,000	2,197,494	38,593,693	2,222,703	29,054,569	7,316,421	
2030	25,885,000	7,002,936	900,000	262,400	2,590,000	2,071,244	38,711,579	2,221,844	29,158,772	7,330,964	
2031	20,435,000	6,052,484	930,000	233,225	2,710,000	1,952,294	32,313,003	1,994,231	23,354,044	6,964,728	75.35%
2032	19,180,000	5,259,988	960,000	202,513	2,815,000	1,841,794	30,259,294	1,726,819	21,778,356	6,754,119	
2033	17,095,000	4,551,734	990,000	170,206	2,930,000	1,726,894	27,463,834	1,688,994	19,251,263	6,523,578	
2034	13,580,000	3,971,606	1,030,000	135,475	3,050,000	1,607,294	23,374,375	1,561,119	16,157,381	5,655,875	
2035	11,845,000	3,512,381	1,065,000	98,813	3,175,000	1,482,794	21,178,988	1,219,088	15,092,175	4,867,725	
2036	9,525,000	3,129,931	1,110,000	60,750	3,300,000	1,361,544	18,487,225	973,050	14,438,563	3,075,613	86.70%
2037	7,345,000	2,826,131	1,140,000	20,663	3,415,000	1,241,897	15,988,691	498,881	13,748,816	1,740,994	
2038	7,650,000	2,548,106	-	-	2,450,000	1,131,000	13,779,106	-	13,779,106	-	
2039	7,960,000	2,258,431	-	-	2,550,000	1,031,000	13,799,431	-	13,799,431	-	
2040	8,275,000	1,956,931	-	-	2,650,000	927,000	13,808,931	-	13,808,931	-	
2041	8,595,000	1,641,938	-	-	2,760,000	818,800	13,815,738	-	13,815,738	-	93.38%
2042	8,945,000	1,289,119	-	-	2,870,000	706,200	13,810,319	-	13,810,319	-	
2043	9,335,000	897,569	-	-	2,990,000	589,000	13,811,569	-	13,811,569	-	
2044	9,715,000	515,388	-	-	3,110,000	467,000	13,807,388	-	13,807,388	-	
2045	6,650,000	212,697	-	-	3,240,000	340,000	10,442,697	-	10,442,697	-	99.21%
2046	2,950,000	46,094	-	-	3,370,000	207,800	6,573,894	-	6,573,894	-	
2047	-	-	-	-	3,510,000	70,200	3,580,200	-	3,580,200	-	100.00%
	<u>\$ 688,975,000</u>	<u>\$ 268,488,469</u>	<u>\$ 29,220,000</u>	<u>\$ 7,854,354</u>	<u>\$ 94,485,000</u>	<u>\$ 56,088,850</u>	<u>\$ 1,145,111,673</u>	<u>\$ 79,688,275</u>	<u>\$ 829,303,849</u>	<u>\$ 236,119,550</u>	

DEBT INFORMATION

- (1) "Outstanding Debt" does not include lease/purchase obligations, however, it does include self-supporting debt. Excludes the Refunded Obligations. Preliminary, subject to change.  
(2) Average life of the issue - 7.503 years. Interest on the Bonds has been calculated at the rate of 2.95% for purposes of illustration. Preliminary, subject to change.  
(3) Average life of the issue - 14.346 years. Interest on the Certificates has been calculated at the rate of 3.45% for purposes of illustration. Preliminary, subject to change.  
(4) Includes a portion of the Bonds and Certificates. Preliminary, subject to change.

**TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION <sup>(1)</sup>**

Budgeted Tax Supported Debt Service Requirements and Fiscal Charges, Fiscal Year Ending 9/30/2017 . . . . .	\$ 75,559,790	
Interest and Sinking Fund Balance as of 9/30/16 . . . . .	\$ 4,893,032	
Interest and Sinking Fund Tax Levy . . . . .	19,748,519	
From Revenue Supported Sources . . . . .	55,761,271	
Interest Income . . . . .	50,000	80,452,822
Estimated Balance, 9/30/17 . . . . .		<u>\$ 4,893,032</u>

(1) Source: City's Annual Budget for Fiscal Year 2016/17.

**TABLE 9 - COMPUTATION OF SELF-SUPPORTING DEBT**

Net Revenue from Solid Waste System, Fiscal Year Ended 9-30-16 . . . . .	\$ 10,552,548 <sup>(1)</sup>
Less: Solid Waste System Revenue Bond Requirements, 2017 Fiscal Year . . . . .	<u>-</u>
Balance Available for Other Purposes . . . . .	\$ 10,552,548
Solid Waste System General Obligation Bond Requirements, 2017 Fiscal Year . . . . .	<u>(8,056,056) <sup>(2)</sup></u>
Balance . . . . .	<u>\$ 2,496,492</u>
Net Revenue from Utility System, Fiscal Year Ended 9-30-16 . . . . .	\$ 91,780,472 <sup>(1)</sup>
Less: Utility System Revenue Bond Requirements, 2017 Fiscal Year . . . . .	<u>(3,680,389)</u>
Balance Available for Other Purposes . . . . .	\$ 88,100,083
Utility System General Obligation Bond Requirements, 2017 Fiscal Year . . . . .	<u>(46,914,293) <sup>(2)</sup></u>
Balance . . . . .	<u>\$ 41,185,790</u>

(1) Does not deduct franchise fees and/or return on investment paid to the General Fund.

(2) Excludes a portion of the Refunded Obligations. Includes a portion of the Bonds. Preliminary, subject to change.

**TABLE 10 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS**

Purpose	Date	Amount	Amount	Amount	Unissued
	Authorized	Authorized	Heretofore	Being	Balance
			Issued	Issued <sup>(1)</sup>	
Street	11/6/2012	\$ 20,400,000	\$ 16,400,000	\$ 4,000,000	\$ -
Street	11/4/2014	61,710,000	13,340,000	4,950,000	43,420,000
Public Safety	11/4/2014	16,565,000	8,355,000	8,210,000	-
Drainage	11/4/2014	8,545,000	5,255,000	-	3,290,000
Parks	11/4/2014	11,355,000	4,280,000	-	7,075,000
		<u>\$ 118,575,000</u>	<u>\$ 47,630,000</u>	<u>\$ 17,160,000</u>	<u>\$ 53,785,000</u>

(1) Preliminary, subject to change.

**ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT . . .** As shown in Table 10 above, after the issuance of the Bonds, the City will have \$53,785,000 voted but unissued debt remaining to be issued from the November 4, 2014 authorization. The City may also issue tax-supported debt other than voter approved general obligation bonds to fund public improvements, such as certificates of obligation or tax anticipation notes, without submitting a measure to the voters, but in certain instances, subject to voter petition rights for a referendum. Further, the City may issue tax-supported debt other than voter approved general obligation bonds to refund bonds or other obligations not currently payable from or supported by ad valorem taxes, such as the City's Utility System revenue bonds. The City anticipates the issuance of approximately \$33,700,000 in tax supported debt in the second quarter of 2018.

**TABLE 11 - OTHER OBLIGATIONS**

The City has entered into capital lease agreements. The following is a schedule of future minimum lease payments under these capital leases and the present value of the net minimum lease payments as of September 30, 2016:

Year Ending 30-Sep	Annual Lease Payment
2017	\$ 910,270
2018	505,054
2019	4,172
Total Minimum Lease Payment	\$ 1,419,496
Less: Amount Representing Interest	46,266
Present Value of Minimum Future Lease Payments	<u>\$ 1,373,230</u>

**PENSION FUND . . .** The City participates as one of 866 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 TMRS with a six-member board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly-available comprehensive annual financial report obtainable at [www.tmrs.com](http://www.tmrs.com).

All eligible employees of the city are required to participate in TMRS.

*Benefits Provided . . .* TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the City Council of the City, within the options available in the state statutes governing TMRS.

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

At the inception of the plan, the city granted monetary credits for service rendered before the plan began (or prior service credits) of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest (3% annual), prior to establishment of the plan. Monetary credits for service since the plan began (or current service credits) are a percent (200%) of the employee's accumulated contributions. In addition, the City grants on an annually repeating basis, another type of monetary credit referred to as an updated service credit. This monetary credit is determined by hypothetically recomputing the member's account balance by assuming the current member deposit rate of the City (7%) has always been in effect. The computation also assumes the member's salary has always been the member's average salary – using a salary calculation based on the 36-month period ending a year before the effective date of calculation. This hypothetical account balance is increased by 3% each year, and increased by the city match currently in effect (200%). The resulting sum is then compared to the member's actual account balance increased by the actual city match and actual interest credited. If the hypothetical calculation exceeds the actual calculation, the member is granted a monetary credit (or Updated Service Credit) equal to the difference between the hypothetical calculation and the actual calculation times the percentage adopted. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the city-financed monetary credits with interest were used to purchase an annuity. The plan provisions also include an annually repeating basis cost of living adjustments for retirees equal to 70% of the change in the consumer price index.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after five years.

*Employees covered by benefit terms . . .* At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	498
Inactive Employees Entitled to But Not Yet Receiving Benefits	443
Active Employees	<u>1,188</u>
	2,129

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 17.76% and 17.23% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016 were \$14,435,639 and were equal to the required contributions.

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

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

Inflation	2.50% per year
Overall payroll growth	3.00% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
None-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

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

*Changes in the Net Pension Liability*

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2014	\$384,408,038	\$ 318,166,193	\$ 66,241,845
Changes for the year:			
Service cost	12,615,957	-	12,615,957
Interest	26,905,700	-	26,905,700
Change of benefit terms	-	-	-
Difference between expected and actual experience	(1,525,911)	-	(1,525,911)
Changes of assumptions	(428,789)	-	(428,789)
Contributions - employer	-	13,615,410	(13,615,410)
Contributions - employee	-	5,365,231	(5,365,231)
Net investment income	-	469,530	(469,530)
Benefit payments, including refunds of employee contributions	(12,697,735)	(12,697,735)	-
Administrative expense	-	(285,957)	285,957
Other changes	-	(14,123)	14,123
Net changes	24,869,222	6,452,356	18,416,866
Balance at 12/31/2015	\$409,277,260	\$ 324,618,549	\$ 84,658,711

*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	Current Discount Rate	1% Increase in Discount Rate
City's Net Pension Liability	\$146,877,886	\$84,658,711	\$33,910,559

*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.tmrs.com](http://www.tmrs.com).

*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions . . .* For the year ended September 30, 2016, the City recognized pension expense of \$16,873,960. This amount is included as part of personal services expenses.

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to TMRS pension from the following sources:

	Deferred Outflow of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$ 19,703,549	\$ -
Contributions subsequent to the measurement date	10,660,116	-
Differences between expected and actual economic experience	-	(1,324,228)
Difference in assumption changes	-	(342,859)
Total	\$30,363,665	\$(1,667,087)

\$10,660,116 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 City's fiscal year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year Ended December 31st	
2016	\$ 4,689,087
2017	4,689,087
2018	4,689,088
2019	3,969,200
2020	-
Total	<u>\$ 18,036,462</u>

*Supplemental Death Benefit Fund . . .* The City of Denton contributes to a cost-sharing multiple-employer defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund ("SDBF"). This is a separate trust administered by the TMRS Board of Trustees and is a voluntary program in which the City elected, by ordinance, to provide group term life insurance coverage to active and retired members. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1st of any year to be effective the following January 1st.

Payments from this fund are similar to group term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an "other postemployment benefit" ("OPEB") and is a fixed amount of \$7,500. The obligations of this plan are payable only from the SDBF and are not an obligation of, or claim against, the TMRS Pension Trust Fund.

Contributions are made monthly based on the covered payroll of employee members of the City. The contractually required contribution rate is determined by an annual actuarial valuation and is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund described above. The TMRS Act requires the Pension Trust Fund to allocate investment income to the SDBF on an annual basis. The funding policy of the plan is to assure adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net assets available for OPEB.

The City's contributions to the TMRS SDBF for the fiscal years ended September 30, 2014, 2015, and 2016, were \$118,782, \$133,686, and \$149,630, respectively, which equaled the required contributions each year.

#### **FIREMEN'S RELIEF AND RETIREMENT FUND**

*Plan Description . . .* The City contributes to the retirement plan for firefighters in the Denton Fire Department known as the Denton Firemen's Relief and Retirement Fund (the "Fireman's Fund"). The Fireman's Fund is a single employer, contributory, defined benefit plan. The benefit provisions of the Fireman's Fund are authorized by the Texas Local Fire Fighters' Retirement Act ("TLFFRA"). TLFFRA provides the authority and procedure to amend benefit provisions. The plan is administered by the Board of Trustees of the Firemen's Fund. The City does not have access to nor can it utilize assets within the retirement plan trust. The Fireman's Fund issues a stand-alone report pursuant to GASB Statement No. 67, which may be obtained by writing the Denton Firemen's Relief and Retirement Fund at P.O. Box 2375, Denton, Texas 76202. See that report for all information about the plan fiduciary net position.

*Benefits Provided . . .* Firefighters in the Denton Fire Department are covered by the Fireman's Fund which provides service retirement, death, disability, and withdrawal benefits. These benefits fully vest after 20 years of credited service. Firefighters may retire at age 50 with 20 years of service. A partially-vested benefit is provided for firefighters who terminate employment with at least 10 but less than 20 years of service. If a terminated firefighter has a partially vested benefit, the firefighter may retire starting on the date they would have both completed 20 years of service if he had remained a Denton firefighter and attained age 50. As of the December 31, 2015 actuarial valuation date, the plan effective January 1, 2011 provided a monthly normal service retirement benefit, payable in a Joint and Two-Thirds to Spouse form of annuity, equal to 2.59% of Highest 36-Month Average Salary for each year of service.



A retiring firefighter who is at least age 52 with at least 22 years of service has the option to elect the Retroactive Deferred Retirement Option Plan ("RETRO DROP") which will provide a lump sum benefit and a reduced monthly benefit. The reduced monthly benefit is based on the service and Highest 36-Month Average Salary as if the firefighter had terminated employment on his selected RETRO DROP benefit calculation date, which is no earlier than the later of the date the firefighter meets the age 52 and 22 years of service requirements and the date four years prior to the date the firefighter actually retires. Upon retirement, the member will receive, in addition to the monthly retirement benefit, a lump sum equal to the sum of (1) the amount of monthly contributions the member has made to the Fireman's Fund after the RETRO DROP benefit calculation date plus (2) the total of the monthly retirement benefits the member would have received between the RETRO DROP benefit calculation date and the date retired under the plan. There are no account balances. The lump sum is calculated at the time of retirement and distributed as soon as administratively possible.

There is no provision for automatic postretirement benefit increases. The Fireman's Fund has the authority to provide, and has periodically in the past provided, ad hoc postretirement benefit increases.

*Employees Covered by Benefit Terms . . .* In the December 31, 2015 actuarial valuation, the following numbers of members were covered by the Fireman's Fund:

Inactive Employees or Beneficiaries Currently Receiving Benefits	84
Inactive Employees Entitled to But Not Yet Receiving Benefits	2
Active Employees	<u>176</u>
	262

*Contributions . . .* The contribution provisions of the Fireman's Fund are authorized by TLFFRA. TLFFRA provides the authority and procedure to change the amount of contributions determined as a percentage of pay by each firefighter and a percentage of payroll by the City.

The funding policy of the Fireman's Fund requires contributions equal to 12.6% of pay by the firefighters, the rate elected by the firefighters according to TLFFRA. The City currently contributes according to a City ordinance the same percentage of payroll the City contributes to the TMRS for other employees each calendar year. The City contribution rate was 17.94% in calendar year 2015 and 17.41% in calendar year 2016. The December 31, 2015 actuarial valuation includes the assumption that the city contribution rate will average 15.5% over the plan's unfunded actuarial accrued liability ("UAAL") amortization period. The costs of administering the plan are paid from the Fireman's Fund assets. The City's contributions to the Fireman's Fund for the year ended September 30, 2016 were \$2,819,046.

Ultimately, the funding policy also depends upon the total return of the Fireman's Fund's assets, which varies from year to year. Investment policy decisions are established and maintained by the board of trustees. The board selects investments and employs investment managers with the advice of their investment consultant who is completely independent of the investment managers. For the calendar year ending December 31, 2015, the money-weighted rate of return on pension plan investments was -4.62%. This measurement of the investment performance is net of investment-related expenses, reflecting the effect of the timing of the contributions received and the benefits paid during the year.

While the contribution requirements are not actuarially determined, state law requires that each change in plan benefits adopted by the Fireman's Fund must first be approved by an eligible actuary, certifying the contribution commitment by the firefighters and the assumed city contribution rate together provide an adequate contribution arrangement. Using the entry age actuarial cost method, the plan's normal cost contribution rate is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost contribution rate is used to amortize the plan's UAAL. The number of years needed to amortize the plan's UAAL is actuarially determined using an open, level percentage of payroll method.

*Net Pension Liability . . .* The City's net pension liability for the Fireman's Fund was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015.

*Actuarial Assumptions . . .* The total pension liability for the Fireman's Fund in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50% per year
Overall payroll growth	3.00% per year, plus promotion, step and longevity increases that vary by service
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Mortality Tables for males and for females (sex distinct) projected to 2024 by scale AA.

The long-term expected rate of return on the Fireman's Fund pension plan investments is reviewed for each biennial actuarial valuation and was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future net real rates of return by the target asset allocation percentage (currently resulting in 5.00%) and by adding expected inflation (2.50%). In addition, the final 6.75% assumption was selected by "rounding down" and thereby reflects a reduction of 0.75% for adverse deviation. The target allocation and expected arithmetic net real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Equities		
Large Cap Domestic	40.0%	5.90%
Small/Mid Cap Domestic	10.0%	6.40%
International Developed	10.0%	6.40%
Alternatives		
Master Limited Partnerships	8.0%	7.90%
Real Estate	15.0%	4.40%
Fixed Income	10.0%	0.90%
Cash	7.0%	0.00%
Total	100.0%	

*Discount Rate* . . . The discount rate used to measure the total pension liability for the Fireman's Fund was 6.75%. No projection of cash flows was used to determine the discount rate because the December 31, 2015 actuarial valuation showed expected contributions would pay the normal cost and amortize the UAAL in 32 years. Because of the 32-year amortization period of the UAAL, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments of 6.75% was applied to all periods of projected benefit payments as the discount rate to determine the total pension liability.

#### *Changes in Net Pension Liability*

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at 12/31/2014	\$84,887,334	\$71,018,518	\$13,868,816
Changes for the year:			
Service cost	2,836,263	-	2,836,263
Interest	5,998,959	-	5,998,959
Change of benefit terms	-	-	-
Difference between expected and actual experience	(2,063,421)	-	(2,063,421)
Changes of assumptions	2,331,908	-	2,331,908
Contributions - employer	-	2,567,219	(2,567,219)
Contributions - employee	-	1,803,064	(1,803,064)
Net investment income	-	(3,287,188)	3,287,188
Benefit payments, including refunds of employee contributions	(4,048,358)	(4,048,358)	-
Administrative expense	-	(76,538)	76,538
Other changes	-	-	-
Net changes	5,055,351	(3,041,801)	8,097,152
Balance at 12/31/2015	\$89,942,685	\$67,976,717	\$21,965,968

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate* . . . The following presents the net pension liability of the City for the Fireman's Fund, 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	Current Discount Rate	1% Increase in Discount Rate
City's Net Pension Liability	\$33,465,927	\$21,965,968	\$12,286,613

*Pension Plan Fiduciary Net Position* . . . The plan fiduciary net position reported above is the same as reported by the Fireman's Fund. Detailed information about the plan fiduciary net position is available in the Fireman's Fund's separately issued audited financial statements, which are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Investments are reported at fair value, the price that would be recognized to sell an asset in an orderly transaction between market participants at the measurement date.

*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions* . . . For the year ended September 30, 2016, the City recognized pension expense of \$3,858,602 for the Fireman's Fund. Amounts recognized in the fiscal year represent changes between the current and prior year measurement dates. This amount is included as part of personal services expenses.

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to the Fireman's Fund from the following sources:

	Deferred Outflow of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$ 6,760,431	\$ -
Contributions subsequent to the measurement date	2,098,808	-
Differences between expected and actual economic experience	-	(1,852,437)
Difference in assumption changes	2,093,472	-
Total	\$ 10,952,711	\$(1,852,437)

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$2,098,808 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2016 and the City's fiscal year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year Ended December 31st	
2016	\$ 1,729,791
2017	1,729,791
2018	1,729,791
2019	1,680,866
2020	27,452
Thereafter	103,775
Total	\$ 7,001,466

**OTHER POST EMPLOYMENT BENEFITS** . . . The cost of post-employment healthcare benefits, from an accrual accounting perspective, similar to the cost of pension benefits, should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. According to the requirements of GASB Statement No. 45 for the fiscal year ended September 30, 2016, the City recognizes the cost of post-employment healthcare in the year the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City's future cash flows. Recognition of the liability accumulated from prior years will be amortized over 30 years, the first period commencing with the fiscal year ending September 30, 2008.

*Plan Description . . .* The City provides post-employment medical care, which is also an OPEB, for retired employees through a single-employer defined benefit medical plan. The plan provides medical benefits for eligible retirees, their spouses and dependents through the City's group health insurance plans, which covers both active and retired members. The benefits, benefit levels, and contribution rates are recommended annually by the City management as part of the budget process. Any changes in rate subsidies for retirees are approved by the City Council. Since an irrevocable trust has not been established, the plan is not accounted for as a trust fund. The plan does not issue a separate financial report.

*Benefits Provided . . .* The City provides post-employment medical, dental, and vision care benefits to its retirees. To be eligible for benefits, an employee must qualify for retirement under the TMRS or the Firemen's Fund. Retirees must make a one-time irrevocable decision to choose benefits at the time of retirement, after that their eligibility for the benefits ceases. However, retirees can move between plans and can add and drop dependents based on qualifying events.

All medical care benefits are provided through the City's self-insured health plan. The benefit levels are the same as those afforded to active employees.

*Funding Policy . . .* The plan premium rates are recommended annually by City management and approved by the City Council as part of the annual budget. The retiree's contribution is the full amount of the actuarially determined blended premium rate less a subsidy dependent upon years of service at retirement. By providing retirees with access to the City's healthcare plans based on the same rates it charges to active employees, the City is in effect providing a subsidy to retirees. This implied subsidy exists because, on average, retiree health care costs are higher than active employee healthcare costs. By the City not contributing anything toward this plan in advance, the City employs a pay-as-you-go method through paying the higher rate for active employees each year. The City contributes \$40 per month for each five-year increment of service, up to \$200 per month, toward the cost of retiree coverage. The full cost for dental and vision is paid by the retiree. Retirees are required to enroll in Medicare Part B once eligible (age 65) and are moved into a fully-insured Medicare Supplement plan at that time. The same City contribution level applies to the supplement.

*Annual OPEB Costs and Net OPEB Obligation . . .* The City's OPEB cost for post-employment medical care is calculated based on the annual required contribution of the City (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of accrual that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The City's annual OPEB cost for post-employment medical care for the current year and the related information are as follows at September 30, 2016:

Annual required contribution	\$ 3,438,549
Interest on prior year net OPEB obligation	227,953
Adjustment to annual required contribution	(386,669)
Annual OPEB cost	<u>3,279,833</u>
Contributions made	(630,522)
Increase in net OPEB obligation	<u>2,649,311</u>
Net OPEB obligation - beginning of year	5,698,824
Net OPEB obligation - end of year	<u>\$8,348,135</u>
Percentage of OPEB costs contributed	19.2%

*Funded Status and Funding Progress . . .* The funded status of the plan as of the actuarial measurement date of December 31, 2015 was as follows:

Actuarial accrued liability	\$ 25,361,327
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	<u>\$ 25,361,327</u>
Funded ratio	0.0%
Covered payroll	\$ 98,668,427
Unfunded actuarial accrued liability as a percentage of covered payroll	25.7%

### Three-Year Trend Information for OPEB Funding

	Fiscal Year Ended September 30,		
	2016	2015	2014
Annual OPEB Costs	\$ 3,279,833	\$ 1,716,639	\$ 1,735,204
Actual Contributions	\$ 630,522	\$ 671,072	\$ 909,288
Percent Contributed	19.2%	39.1%	52.4%
Net OPEB Obligations	\$ 8,348,135	\$ 5,698,824	\$ 4,653,257

The schedule of funding progress, presented as "Required Supplementary Information" (Exhibit XIII) following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the status of the plan and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

*Actuarial Methods and Assumptions . . .* The Projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the City's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The Projected Unit Credit method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of benefits are based on the substantive plan (the plan understood by the employer and plan members) and include the type of benefits in force at the valuation date and the pattern of sharing benefits between the City and the plan members at that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant method and assumptions used for this fiscal year valuation as shown on the following page were as follows:

#### Actuarial Assumptions

	12/31/15
Actuarial cost method	Projected unit credit
Amortization method	Level dollar
Amortization period	22 years, closed
Asset valuation method	N/A
Investment rate of return	4.0%, net of expenses
Inflation rate	2.5%
Payroll growth	N/A
Healthcare inflation rate	Initial rate of 7.50% declining to an ultimate rate of 4.25% after 15 years

*Medical Reimbursements . . .* The federal government may provide the city subsidy per the Medicare Part D Prescription Drug Subsidy Program for providing healthcare for Medicare eligible employees. As the City does not participate in these subsidies, any current and future year subsidies are not recognized as a reduction to the actuarial accrued liability.

## FINANCIAL INFORMATION

**TABLE 12 - CHANGES IN NET POSITION OF GOVERNMENTAL FUNDS**

	Fiscal Year Ended September 30,				
	2016	2015	2014	2013	2012
<b>Revenues:</b>					
Program Revenue:					
Charges for Services	\$ 21,841,254	\$ 18,274,498	\$ 18,428,832	\$ 17,091,719	\$ 15,980,821
Operating Grants and Contributions	2,855,501	3,380,119	4,788,149	3,118,105	2,598,157
Capital Grants and Contributions	5,885,033	10,443,220	11,127,695	14,671,571	4,292,468
General Revenue:					
Property Tax	58,788,255	54,174,965	48,833,077	47,275,552	45,174,160
Sales Tax	32,624,297	30,601,965	27,764,114	26,522,473	25,886,940
Other Taxes/Fees	25,518,472	24,746,463	23,424,250	22,578,639	21,839,818
Miscellaneous	2,605,363	2,687,360	2,543,781	1,428,907	1,390,398
Total Revenue	<u>\$ 150,118,175</u>	<u>\$ 144,308,590</u>	<u>\$ 136,909,898</u>	<u>\$ 132,686,966</u>	<u>\$ 117,162,762</u>
<b>Expenditures:</b>					
General Government	\$ 33,847,052	\$ 31,260,126	\$ 30,476,840	\$ 27,686,735	\$ 29,421,275
Public Safety	63,118,516	58,132,146	56,893,859	52,906,985	52,496,010
Public Works	24,557,482	20,331,934	16,950,280	18,663,884	18,662,029
Parks and Recreation	16,043,697	14,982,742	14,543,461	13,714,245	12,968,426
Interest on Long-Term Debt	4,664,608	4,384,973	4,339,154	4,464,309	4,755,938
Total Expenses	<u>\$ 142,231,355</u>	<u>\$ 129,091,921</u>	<u>\$ 123,203,594</u>	<u>\$ 117,436,158</u>	<u>\$ 118,303,678</u>
Increase in Net Position before Transfers	\$ 7,886,820	\$ 15,216,669	\$ 13,706,304	\$ 15,250,808	\$ (1,140,916)
Transfers	<u>1,184,433</u>	<u>1,140,938</u>	<u>876,525</u>	<u>(101,707)</u>	<u>887,287</u>
Increase (Decrease) in Net Position	\$ 9,071,253	\$ 16,357,607	\$ 14,582,829	\$ 15,149,101	\$ (253,629)
Prior Period Adjustment	-	(39,247,319) <sup>(1)</sup>	(737,505)	-	-
Net Position at Beginning of Year	<u>146,354,778</u>	<u>169,244,490</u>	<u>155,399,166</u>	<u>140,250,065</u>	<u>140,503,694</u>
Net Position at End of Year <sup>(2)</sup>	<u><u>\$ 155,426,031</u></u>	<u><u>\$ 146,354,778</u></u>	<u><u>\$ 169,244,490</u></u>	<u><u>\$ 155,399,166</u></u>	<u><u>\$ 140,250,065</u></u>

(1) Represents a net adjustment due to GASB 68, "Accounting and Financial Reporting for Pensions" and GASB 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date".

(2) Unrestricted net position, that part of the net position that may be used to meet the City's ongoing obligations, was (\$3,620,580) as of September 30, 2016. This table refers to governmental activities only and does not include enterprise funds such as solid waste or utility activities.

**TABLE 12A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY**

	Fiscal Year Ended September 30,				
	2016	2015	2014	2013	2012
<u>Revenues:</u>					
Taxes	\$ 73,316,697	\$ 68,844,155	\$ 61,779,192	\$ 59,278,152	\$ 57,148,330
Licenses and Permits	3,106,162	2,782,395	1,978,421	1,446,580	1,436,215
Franchise Fee	13,246,765	12,969,628	13,889,670	13,597,253	13,751,615
Fines and Forfeitures	3,767,796	3,721,677	4,539,209	4,229,107	4,241,395
Fees for Service	7,432,481	6,039,221	5,913,566	5,631,829	5,666,413
Interest Revenue	293,616	221,867	172,684	141,734	187,527
Intergovernmental	969,898	1,051,630	1,383,267	1,021,581	949,422
Miscellaneous	168,732	141,090	120,680	84,929	255,035
Total Revenues	<u>\$ 102,302,147</u>	<u>\$ 95,771,663</u>	<u>\$ 89,776,689</u>	<u>\$ 85,431,165</u>	<u>\$ 83,635,952</u>
<u>Expenditures:</u>					
General Government	\$ 26,651,405	\$ 24,694,516	\$ 23,337,639	\$ 21,067,238	\$ 20,951,203
Public Safety	55,724,427	52,739,309	50,949,715	49,622,237	46,797,417
Public Works	2,869,618	3,306,507	2,854,761	2,816,923	2,591,517
Parks and Recreation	11,875,804	11,209,486	10,891,862	10,579,066	9,704,075
Capital Outlay	519,325	572,876	573,903	616,199	712,055
Debt Service: Principal Retirement	45,880	-	-	-	78,092
Total Expenditures	<u>\$ 97,686,459</u>	<u>\$ 92,522,694</u>	<u>\$ 88,607,880</u>	<u>\$ 84,701,663</u>	<u>\$ 80,834,359</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 4,615,688	\$ 3,248,969	\$ 1,168,809	\$ 729,502	\$ 2,801,593
<u>Other Financing Sources (Uses):</u>					
Transfers In	\$ (3,981,877)	\$ 250	\$ -	\$ 2,600	\$ 14,301
Sale of Capital Assets	170,869	117,763	85,059	137,417	153,127
Transfers (Out)	-	(1,840,096)	(1,170,764)	(950,421)	(1,556,944)
Total Other Financing Sources (Uses)	<u>\$ (3,811,008)</u>	<u>\$ (1,722,083)</u>	<u>\$ (1,085,705)</u>	<u>\$ (810,404)</u>	<u>\$ (1,389,516)</u>
Net Changes in Fund Balances	\$ 804,680	\$ 1,526,886	\$ 83,104	\$ (80,902)	\$ 1,412,077
Fund Balances at Beginning of Year	<u>27,365,168</u>	<u>25,838,282</u>	<u>25,755,178</u>	<u>25,836,080</u>	<u>24,424,003</u>
Fund Balances at End of Year	<u>\$ 28,169,848</u>	<u>\$ 27,365,168</u>	<u>\$ 25,838,282</u>	<u>\$ 25,755,178</u>	<u>\$ 25,836,080</u>

**TABLE 13 - MUNICIPAL SALES TAX HISTORY**

The City has adopted the Municipal Sales and Use Tax Act, Texas Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Obligations. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. In January 1994, the voters of the City approved the imposition of an additional one-half of one percent (½ of 1%) for property tax reduction. In September 2003, the voters of the City approved the imposition of an additional one-half of one percent (½ of 1%) for the Denton County Transportation Authority. The implementation of this tax began January 2004, and is allocated directly to the Denton County Transportation Authority.

Fiscal Year Ended 9/30	Total Collected <sup>(1)</sup>	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2013	\$ 26,522,473	56.45%	\$0.3955	\$ 226
2014	27,764,114	57.32%	0.3988	233
2015	30,601,965	57.03%	0.3943	253
2016	32,624,299	55.64%	0.3873	266
2017 <sup>(2)</sup>	12,090,118	19.31%	0.1326	97

(1) Source: City of Denton Annual Program of Services.

(2) Collections through March 1, 2017.

The sales tax breakdown for the City is as follows:

Property Tax Relief	0.50¢
Denton County Transportation Authority	0.50¢
City Sales & Use Tax	1.00¢
State Sales & Use Tax	6.25¢
Total	8.25¢

## FINANCIAL POLICIES

**Basis of Accounting . . .** The accounting policies of the City conform to generally accepted accounting principles of the Governmental Accounting Standards Board and program standards adopted by the Government Finance Officers Association of the United States and Canada. The GFOA has awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Denton for each fiscal year since 1983. The City's current report will be submitted to GFOA to determine its eligibility for another Certificate.

The City has also received the GFOA's award for Distinguished Budget Presentation each year since 1986.

The measurement focuses for the Enterprise Funds, Internal Service Funds and Nonexpendable Trust Funds are income determination and cost of service, respectively. Accordingly, the accrual basis, whereby revenues and expenses are identified in the accounting period in which they are earned and incurred and net income, is utilized for these funds. The modified accrual basis, whereby revenues are recognized when they become both measurable and available for use during the year and expenditures are recognized when the related fund liability is incurred, is used for all other funds.

**Budgetary Procedures . . .** As prescribed by City Charter, the City Manager, within the time period required by law, submits to the City Council a proposed budget for the fiscal year beginning the following October 1. The budget includes proposed expenditures and revenues required to fund the expenditures. Following Council considerations, amendments and refinements, a public hearing is ordered and conducted for the purpose of obtaining taxpayer comments. The budget is finally approved and adopted by passage of an ordinance by the City Council prior to the beginning of the fiscal year. The budget is adopted on a basis consistent with generally accepted accounting principles. It is the goal of the City to achieve and maintain an unassigned fund balance in the general fund equal to 20% of budgeted expenditures. An additional 5% resiliency reserve (25% combined total) may be maintained to safeguard against unusual financial circumstances and/or economic downturns.



## INVESTMENTS

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

**LEGAL INVESTMENTS . . .** Under Texas law, the City is authorized to invest in (1) obligations, including letter of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended (the "PFLA")) that are issued by or through an institution that either has its main office or a branch office in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or are invested by the City through a depository institution that has its main office or a branch office in the State of Texas and otherwise meet the requirements of the PFLA, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State, (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. If specifically authorized in the authorizing document, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

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

**INVESTMENT POLICIES . . .** Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool

funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest during the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

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

**TABLE 14- CURRENT INVESTMENTS <sup>(1)</sup>**

As of March 1, 2017, the City's available funds were invested as follows:

Description	Market Value Percent	Market Value	Book Value
Treasury Securities - Coupon	5.93%	\$ 44,415,155	\$ 44,357,162
Federal Agency Issues - Coupon	30.97%	232,035,287	232,312,432
Federal Agency Issues - Callable	1.31%	9,849,875	9,999,204
Municipal Bonds - Coupon	4.69%	35,142,861	35,254,616
CDs - CDARS <sup>(2)</sup>	7.34%	55,000,000	55,000,000
CDs - SLOC <sup>(3)</sup>	12.68%	95,000,000	95,000,000
Commercial Paper Disc. - Amortizing	7.58%	56,823,600	56,813,529
Local Government Inv. Pool-TexSTAR	29.04%	217,564,298	217,564,298
Demand Deposits/Wells Fargo <sup>(4)</sup>	0.46%	3,420,592	3,420,592
	<u>100.00%</u>	<u>\$ 749,251,668</u>	<u>\$ 749,721,833</u>

(1) There are no City funds invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index or commodity.

(2) Fully insured by FDIC.

(3) Insured up to the FDIC limit with uninsured amounts backed by a Federal Home Loan Bank standby letter of credit.

(4) Insured up to the FDIC limit with uninsured amounts collateralized by U.S. federal agency securities at a minimum of 102% of principal plus accrued interest.

## **TAX MATTERS**

### **OPINIONS**

**The Bonds** . . . On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel to the City, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel to the City will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See Appendix C – Forms of Bond Counsel's Opinions.

**The Certificates** . . . On the date of initial delivery of the Certificates, Bond Counsel to the City will render its opinion that, in accordance with Existing Law, (1) interest on the Certificates for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Certificates will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Code. Except as stated above, Bond Counsel to the City will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Certificates. See Appendix C – Forms of Bond Counsel's Opinions.

In rendering each of the foregoing opinions, Bond Counsel to the City will rely upon (a) certain information and representations of the City, including information and representations contained in the City's federal tax certificate with respect to each Obligation issue, (b) covenants of the City contained in the Obligation documents relating to certain matters, including arbitrage and the use of the proceeds of the Obligations and the Refunded Obligations and the property financed or refinanced therewith and (c) with respect to the Bonds, the sufficiency certificate prepared by FirstSouthwest. Failure by the City to observe the aforementioned representations or covenants could cause the interest on the Obligations to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Obligations in order for interest on the Obligations to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Obligations to be included in gross income retroactively to the date of issuance of the Obligations. The opinion of Bond Counsel to the City is conditioned on compliance by the City with such requirements, and Bond Counsel to the City has not been retained to monitor compliance with these requirements subsequent to the issuance of the Obligations.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Obligations.

A ruling was not sought from the Internal Revenue Service by the City with respect to the Obligations or the projects being financed or refinanced therewith. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the City that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Obligations, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the holders of the Obligations may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

### **FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT**

The initial public offering price to be paid for one or more maturities of the Obligations may be less than the principal amount thereof or one or more periods for the payment of interest on the Obligations may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Obligations less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

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

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

#### **COLLATERAL FEDERAL INCOME TAX CONSEQUENCES**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Obligations. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE OBLIGATIONS.

Interest on the Obligations will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Obligations, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Obligations, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

#### **STATE, LOCAL AND FOREIGN TAXES**

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Obligations under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

## **INFORMATION REPORTING AND BACKUP WITHHOLDING**

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Obligations will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

## **FUTURE AND PROPOSED LEGISLATION**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Obligations under Federal or state law and could affect the market price or marketability of the Obligations. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Obligations should consult their own tax advisors regarding the foregoing matters.

## **CONTINUING DISCLOSURE OF INFORMATION**

In each of the Ordinances, the City has made the following agreement for the benefit of the holders and beneficial owners of the respective series of Obligations. The City is required to observe each agreement while it remains obligated to advance funds to pay such Obligations. Under each agreement, the City will be obligated to provide certain updated financial information and operating data annually, and the timely notice of specified events to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org).

**ANNUAL REPORTS . . .** The City shall provide annually to the MSRB, in the electronic format prescribed by the MSRB, financial information and operating data (the "Annual Operating Report") with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 5 and 7 through 14. The City will additionally provide financial statements of the City (the "Financial Statements"), that will be (i) prepared in accordance with the accounting principles described in the City's annual audited financial statements or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in this Official Statement and (ii) audited, if the City commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The City will update and provide the Annual Operating Report within six months after the end of each fiscal year and the Financial Statements within 12 months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2016. The City may provide the Financial Statements earlier, including at the time it provides its Annual Operating Report, but if the audit of such Financial Statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited Financial Statements within such 12-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

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

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

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

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

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

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

**COMPLIANCE WITH PRIOR UNDERTAKINGS . . .** During the last five years, the City believes it has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12. However, there was one instance in 2014 where a bond insurer's credit rating was upgraded above the underlying rating on the insured bonds, and the City did not file a Notice of Material Event for the rating change until 94 days after the bond insurer's rating change.

## **OTHER INFORMATION**

### **RATINGS**

The Obligations and the presently outstanding tax supported debt of the City are rated "[REDACTED]" by Fitch and "[REDACTED]" by S&P. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Obligations.

### **LITIGATION**

It is the opinion of the City Attorney and City Staff that there is no pending, or to their knowledge threatened, litigation or other proceeding against the City that could have a material adverse financial impact upon the City or its operations over and above those already disclosed in the City's Comprehensive Annual Financial Report, see Appendix B, Notes V.F. and V.G., page 73.

At the time of the initial delivery of the Obligations, the City will provide the Initial Purchasers with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Obligations or that affects the payment and security of the Obligations or in any other manner questioning the issuance, sale or delivery of the Obligations.

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

The sale of the Obligations has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Obligations have not been qualified under the Securities Act of Texas

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

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

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

**The Certificates.** Section 271.051, Texas Local Government Code, provides that the Certificates are legal and authorized investments for banks, savings banks, trust companies, savings and loan associations, insurance companies, fiduciaries, trustees and guardians, and for the sinking funds of municipalities, school districts, and other political subdivisions or public agencies of the State of Texas. The Certificates are eligible to secure deposits of any public funds of the State, municipalities, school districts, and other political subdivisions of the State, and are legal security for those deposits to the extent of their market value.

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

#### **LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE**

The City will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Bonds and of the Certificates, including the unqualified approving legal opinions of the Attorney General of Texas approving the Initial Bond and the Initial Certificate and to the effect that the Bonds and the Certificates are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinions of Bond Counsel, to like effect and to the effect that the interest on the Bonds and the Certificates will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Obligations, or which would affect the provision made for their payment or security or in any manner questioning the validity of said Obligations will also be furnished. Though it represents the Financial Advisor and purchasers of debt from governmental issuers from time to time in matters unrelated to the issuance of the Obligations, Bond Counsel has been engaged by and only represents the City in connection with the issuance of the Obligations. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Obligations in the Official Statement to verify that such description conforms to the provisions of the Bond Ordinance and the Certificate Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Obligations is contingent on the sale and delivery of the Obligations. The legal opinion will accompany the Obligations deposited with DTC or will be printed on the Obligations in the event of the discontinuance of the Book-Entry-Only System.

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

#### **AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION**

The financial data and other information contained herein have been obtained from City records, audited financial statements, and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents, and ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

## **FINANCIAL ADVISOR**

FirstSouthwest, a Division of Hilltop Securities Inc., ("FirstSouthwest") is employed as Financial Advisor to the City in connection with the issuance of the Obligations. The Financial Advisor's fee for services rendered with respect to the sale of the Obligations is contingent upon the issuance and delivery of the Obligations. FirstSouthwest, in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the legal documents with respect to the federal income tax status of the Obligations, or the possible impact of any present, pending, or future actions taken by any legislative or judicial bodies.

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

## **INITIAL PURCHASER OF THE BONDS**

After requesting competitive bids for the Bonds, the City accepted the bid of (the "Initial Purchaser of the Bonds") to purchase the Bonds at the interest rates shown on page 4 of the Official Statement at a price of par plus a cash premium of \$\_\_\_\_\_. The Initial Purchaser of the Bonds can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Initial Purchaser of the Bonds. The City has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the sole responsibility of the Initial Purchaser of the Bonds.

## **INITIAL PURCHASER OF THE CERTIFICATES**

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

The Initial Purchaser of the Bonds and the Initial Purchaser of the Certificates are herein collectively referred to as the "Initial Purchasers".

## **CERTIFICATION OF THE OFFICIAL STATEMENT**

At the time of payment for and delivery of the Obligations, the City will furnish to the Initial Purchasers a certificate, executed by a proper City officer, acting in such officer's official capacity, to the effect that to the best of such officer's knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in the Official Statement, and any addenda, supplement, or amendment thereto, on the date of the Official Statement, on the date of sale of the Obligations, and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, the Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in the Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last audited financial statements of the City.

## **FORWARD-LOOKING STATEMENTS DISCLAIMER**

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

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions



related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

#### **Links To Websites**

The City has provided links to websites in this Official Statement to allow investors independent access to information or expertise that may be of value. INFORMATION ON SUCH WEBSITES IS NOT INCORPORATED INTO THIS OFFICIAL STATEMENT BY REFERENCE OR OTHERWISE. The inclusion of any links does not imply a recommendation or endorsement of the information or views expressed within a website. The City has not participated in the preparation, compilation or selection of information or views in any website referenced in this Official Statement, and assumes no responsibility or liability for the information or views, or accuracy or completeness thereof, in any website referenced herein.

#### **MISCELLANEOUS**

The Ordinances authorizing the issuance of the Obligations approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Obligations by the Initial Purchasers.

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PRICING OFFICER  
City of Denton, Texas

**SCHEDULE OF REFUNDED OBLIGATIONS\*****General Obligation Refunding Bonds, Series 2007**

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
9/15/2007	2/15/2018	4.250%	\$ 800,000	\$ 800,000
	2/15/2018	5.000%	2,755,000	2,755,000
	2/15/2019	5.000%	3,030,000	3,030,000
	2/15/2020	5.250%	2,390,000	2,390,000
	2/15/2021	4.250%	2,460,000	2,460,000
	2/15/2022	4.250%	1,545,000	1,545,000
			<u>\$12,980,000</u>	<u>\$ 12,980,000</u>

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The 2018 - 2022 maturities will be redeemed prior to original maturity on July 14, 2017, at par.

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**APPENDIX A**

GENERAL INFORMATION REGARDING THE CITY

**APPENDIX B**

EXCERPTS FROM THE  
CITY OF DENTON, TEXAS  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2016

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

## **APPENDIX C**

### **FORMS OF BOND COUNSEL'S OPINIONS**