

OFFICIAL STATEMENT

Dated August 10, 1999

**Ratings:
S&P: "AAA"
FGIC Insured
(See "Municipal Bond
Insurance" and "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 BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS"
FOR FINANCIAL INSTITUTIONS

**\$2,020,000
CITY OF BELLMEAD, TEXAS
(McLennan County)
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 1999**

Dated Date: August 1, 1999

Due: March 1, as shown on the inside cover page

PAYMENT TERMS . . . Interest on the \$2,020,000 City of Bellmead, Texas, Combination Tax and Revenue Certificates of Obligation, Series 1999 (the "Certificates"), together with the \$820,000 City of Bellmead, Texas, General Obligation Refunding Bonds, Series 1999 (the "Bonds") (collectively referred to as the "Obligations"), will accrue from August 1, 1999, (the "Dated Date") and will be payable March 1 and September 1, of each year, commencing March 1, 2000, 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. **No physical delivery of the Certificates will be made to the 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 The Bank of New York, New York, New York (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 constitute direct obligations of the City of Bellmead, Texas (the "City"), payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, 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 Waterworks System, as provided in the ordinance authorizing the Certificates (the "Certificate Ordinance") (see "The Obligations - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the construction of street improvements and related improvements to water and sewer lines in the City and for payment of the costs associated with the issuance of the Certificates.

FGIC. Financial Guaranty Insurance Company

FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency.

Payment of the principal of and interest on the Certificates when due will be guaranteed by a municipal bond insurance policy issued simultaneously with the delivery of the Certificates by Financial Guaranty Insurance Company (the "Insurer").

MATURITY SCHEDULE

See Schedule on the Inside Cover

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the Underwriter and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see Appendix C, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, as Disclosure Counsel to the City.

DELIVERY . . . It is expected that the Certificates will be available for delivery through The Depository Trust Company on September 9, 1999.

ESTRADA HINOJOSA & COMPANY, INC.

MATURITY SCHEDULE

Maturity (3/1)	Principal Amount	Rate	Price or Yield	Maturity (3/1)	Principal Amount	Rate	Price or Yield
2005	\$ 80,000	4.75%	4.75%	2010	\$ 215,000	5.00%	5.10%
2006	175,000	5.10%	4.85%	2011	225,000	5.05%	5.15%
2007	185,000	5.10%	4.95%	2012	235,000	5.15%	5.25%
2008	195,000	5.10%	5.00%	2013	250,000	5.20%	5.30%
2009	200,000	5.00%	5.05%	2014	260,000	5.25%	5.35%

(Accrued Interest from August 1, 1999 to be added)

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after March 1, 2010, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 2009, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Obligations - Optional Redemption").

OFFICIAL STATEMENT

Dated August 10, 1999

**Ratings:
S&P: "AAA"
FGIC Insured
(See "Municipal Bond
Insurance" and "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 BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS"
FOR FINANCIAL INSTITUTIONS

\$820,000

CITY OF BELLMEAD, TEXAS

(McLennan County)

GENERAL OBLIGATION REFUNDING BONDS, SERIES 1999

Dated Date: August 1, 1999

Due: March 1, as shown on the inside cover page

PAYMENT TERMS . . . Interest on the \$820,000 City of Bellmead, Texas, General Obligation Refunding Bonds, Series 1999 (the "Bonds"), together with the \$2,020,000 City of Bellmead, Texas, Combination Tax and Revenue Certificates of Obligation, Series 1999 (the "Certificates") (collectively referred to as the "Obligations"), will accrue from August 1, 1999, (the "Dated Date") and will be payable March 1 and September 1 of each year, commencing March 1, 2000, 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. **No physical delivery of the Bonds will be made to the 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 The Bank of New York, New York, New York (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 Article 717k, Vernon's Annotated Texas Civil Statutes ("VATCS"), as amended, and are direct obligations of the City of Bellmead, Texas (the "City"), payable from a continuing ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the ordinance authorizing the Bonds (the "Bond Ordinance") (see "The Obligations - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Bonds will be used to refund on a current basis all of the City's outstanding debt, consisting of \$280,000 Combination Tax and Revenue Certificates of Obligation, Series 1986 and \$510,000 Combination Tax and Revenue Certificates of Obligation, Series 1990 (collectively, the "Refunded Certificates") in order to achieve a present value debt service savings for the City and to pay the costs associated with the issuance of the Bonds.

**FGIC. Financial Guaranty Insurance
Company**

FGIC is a registered service mark used by Financial Guaranty Insurance Company,
a private company not affiliated with any U.S. Government agency.

Payment of the principal of and interest on the Bonds when due will be guaranteed by a municipal bond insurance policy issued simultaneously with the delivery of the Bonds by Financial Guaranty Insurance Company (the "Insurer").

MATURITY SCHEDULE

See Schedule on the Inside Cover

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

DELIVERY . . . It is expected that the Bonds will be available for delivery through The Depository Trust Company on September 9, 1999.

ESTRADA HINOJOSA & COMPANY, INC.

MATURITY SCHEDULE

Maturity (3/1)	Principal Amount	Rate	Price or Yield
2000	\$ 135,000	3.65%	3.65%
2001	140,000	4.20%	4.20%
2002	145,000	4.35%	4.40%
2003	150,000	4.45%	4.50%
2004	160,000	4.50%	4.60%
2005	90,000	4.75%	4.75%

(Accrued Interest from August 1, 1999 to be added)

The Bonds are not subject to redemption prior to maturity (see "The Obligations - Optional Redemption").

No dealer, broker, salesman or other person has been authorized by the City or the Underwriter to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriter. This Official Statement does not constitute an offer to sell Obligations in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Certain information set forth herein has been obtained from the City and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financial Advisor. 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.

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

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

OFFICIAL STATEMENT SUMMARY

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

THE CITY..... The City of Bellmead is a political subdivision and municipal corporation of the State, located in McLennan County, Texas. The City covers approximately 13.5 square miles (see "Introduction - Description of City").

THE OBLIGATIONS The \$2,020,000 City of Bellmead, Texas Combination Tax and Revenue Certificates of Obligation, Series 1999 are issued as serial certificates maturing in the years 2005 through 2014. The \$820,000 City of Bellmead, Texas, General Obligation Refunding Bonds, Series 1999 are issued as serial bonds maturing in the years 2000 through 2005 (see "The Obligations - Description of the Obligations").

PAYMENT OF INTEREST Interest on the Obligations accrues from August 1, 1999, and is payable March 1, 2000, and each March 1 and September 1 thereafter until maturity or prior redemption (see "The Obligations - Description of the Obligations" and "The Obligations - Optional Redemption").

AUTHORITY FOR ISSUANCE The Bonds are issued pursuant to the general laws of the State, including particularly Article 717k, VATCS, as amended, the City's home-rule charter, and an ordinance passed by the City Council of the City (see "The Obligations - Authority for Issuance").

The Certificates are issued pursuant to the Constitution and the general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificates of Obligation Act of 1971), the City's home-rule charter, and an ordinance passed by the City Council of the City (see "The Obligations - Authority for Issuance").

SECURITY FOR THE

OBLIGATIONS..... The Bonds and the Certificates constitute direct obligations of the City, payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the City, as provided in the respective ordinances authorizing the Obligations. In addition, the Certificates are payable from and secured by a limited pledge (not to exceed \$1,000) of surplus net revenues of the City's Waterworks System (see "The Obligations - Security and Source of Payment").

OPTIONAL REDEMPTION..... The City reserves the right, at its option, to redeem Certificates having stated maturities on and after March 1, 2010, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 2009, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Obligations - Optional Redemption").

The Bonds are not subject to redemption prior to maturity.

TAX EXEMPTION 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 the caption "Tax Matters" herein, including the alternative minimum tax on corporations.

QUALIFIED TAX-EXEMPT

OBLIGATIONS..... The City will designate the Obligations as "Qualified Tax-Exempt Obligations" for financial institutions (see "Tax Matters - Qualified Tax-Exempt Obligations for Financial Institutions").

USE OF PROCEEDS..... Proceeds from the sale of the Certificates will be used for the construction of street improvements and related improvements to water and sewer lines in the City and for payment of the costs associated with the issuance of the Certificates

Proceeds from the sale of the Bonds will be used to refund on a current basis all of the City's outstanding debt, consisting of \$280,000 Combination Tax and Revenue Certificates of Obligation, Series 1986 and \$510,000 Combination Tax and Revenue Certificates of Obligation, Series 1990 (collectively, the "Refunded Certificates") in order to achieve a present value debt service savings for the City and to pay the costs associated with the issuance of the Bonds.

RATINGS The Obligations are rated “AAA” by Standard & Poor’s Ratings Service, a Division of the McGraw-Hill Companies, Inc. (“S&P”) by virtue of an insurance policy to be issued by Financial Guaranty Insurance Company. The underlying rating for the tax-supported debt of the City is rated “BBB+” by S&P (see “Other Information - Ratings” and “Municipal Bond Insurance”).

BOND INSURANCE The scheduled payment of principal of and interest on the Obligations when due will be guaranteed under insurance policies to be issued by Financial Guaranty Insurance Company simultaneously with the delivery of the Obligations (see “Municipal Bond Insurance”).

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. 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 in payment of its tax-supported or revenue-supported debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population ⁽¹⁾	Taxable Assessed Valuation (TAV)	General Per Capita Obligation (G.O.) Tax Debt	Per Capita G. O. Tax Debt	Ratio G.O. Tax Debt to TAV	% of Total Tax Collections	
1995	8,350	\$ 125,824,295	\$ 15,069	\$ 1,600,000	\$ 192	1.27%	103.35%
1996	8,460	138,540,017	16,376	1,405,000	166	1.01%	101.10%
1997	8,500	143,081,135	16,833	1,195,000	141	0.84%	101.53%
1998	8,550	147,995,225	17,309	995,000	116	0.67%	100.87%
1999	8,650	150,217,792 ⁽²⁾	17,366	2,840,000 ⁽³⁾	328	1.89%	95.00% ⁽⁴⁾

(1) Source: City officials.

(2) The City’s preliminary tax year 1999 taxable assessed valuation is \$153,578,503 as provided by the McLennan County Appraisal District.

(3) Projected; includes the Obligations, excludes the Refunded Certificates.

(4) Partial collections through May, 1999.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended September 30,				
	1998	1997	1996	1995	1994
Beginning Balance	\$ 1,185,980	\$ 900,838	\$ 1,039,661	\$ 786,912 ⁽¹⁾	427,684
Total Revenue	2,914,454	2,543,416	2,396,274	2,240,355	2,065,377
Total Expenditures	2,524,972	2,288,274	2,570,079	1,982,606	1,831,346
Net Transfers In (Out)	34,915	30,000	34,982	(5,000)	41,937
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	424,397	285,142	(138,823)	252,749	275,968
Ending Balance	\$ 1,610,377	\$ 1,185,980	\$ 900,838	\$ 1,039,661	\$ 703,652 ⁽¹⁾

(1) Change in general fund balance was due to the implementation of a change in GASB accounting principles.

For additional information regarding the City, please contact:

Elizabeth Dieterich
 Finance Director
 City of Bellmead
 3015 Bellmead Drive
 Bellmead, Texas 76705
 (254) 799-2436

or

Douglas R. Hartman
 First Southwest Company
 1700 Pacific Avenue
 Suite 500
 Dallas, Texas 75201
 (214) 953-4000

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>Name</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Elton Hall, Mayor	9 Years	May, 2001	Minister
Ruth Haines, Mayor Pro-Tem	10 Years	May, 2000	Retired
Russell Devorsky	14 Years	May, 2001	State Representative's Office
Robert Hawkins	10 Years	May, 2000	Retired
Carl E. Swanson, III	2 Months	May, 2001	Self-employed
Al Lopez	3 Months	May, 2000	Florist

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service with The City</u>	<u>Total Governmental Service</u>
S.G. Radcliffe	City Manager/City Secretary	25 Years	25 Years
Elizabeth Dieterich, CPA	Finance Director	9 Years	9 Years

CONSULTANTS AND ADVISORS

Auditors Jaynes, Reitmeier, Boyd & Therrell, P.C.
Waco, Texas

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

Financial Advisor First Southwest Company
Dallas, Texas

OFFICIAL STATEMENT

RELATING TO

\$2,020,000
CITY OF BELLMEAD, TEXAS
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 1999

AND

\$820,000
CITY OF BELLMEAD, TEXAS
GENERAL OBLIGATION REFUNDING BONDS, SERIES 1999

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance by the City of Bellmead, Texas (the "City") of \$2,020,000 Combination Tax and Revenue Certificates of Obligation, Series 1999 (the "Certificates") and \$820,000 General Obligation Refunding Bonds, Series 1999 (the "Bonds"), hereinafter collectively referred to as the "Obligations". Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the respective ordinances (the "Ordinances") to be adopted on the date of sale of the Obligations, except as otherwise indicated herein.

There follows in this 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, First Southwest Company, Dallas, Texas.

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1954, and first adopted its Home Rule Charter in 1955. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and five Councilmembers. The term of office is two years with the terms of the Mayor and two of the Councilmembers expiring in odd-numbered years and the terms of the other three Councilmembers expiring in even-numbered years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The 1990 Census population for the City was 8,336, while the estimated 1999 population is 8,650. The City covers approximately 13.5 square miles

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the construction of street improvements and related improvements to water and sewer lines in the City and for payment of the costs associated with the issuance of the Certificates.

Proceeds from the sale of the Bonds will be used to refund on a current basis all of the City's outstanding debt, consisting of \$280,000 Combination Tax and Revenue Certificates of Obligation, Series 1986 and \$510,000 Combination Tax and Revenue Certificates of Obligation, Series 1990 (collectively, the "Refunded Certificates") in order to achieve a present value debt service savings for the City and to pay the costs associated with the issuance of the Bonds. See Schedule I for a detailed listing of the Refunded Certificates and their respective redemption dates at par.

REFUNDED CERTIFICATES . . . The principal and accrued interest due on the Refunded Certificates are to be paid on the redemption date of the Refunded Certificates, from funds to be deposited pursuant to certain deposit agreements (the "Deposit Agreements") between the City and the paying agents for the Refunded Certificates, Chase Bank of Texas, National Association, Houston, Texas, with respect to the Series 1986 Certificates and The Bank of New York, New York, with respect to the Series 1990 Certificates (the "Old Paying Agents"). The Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriter, the City will deposit with the respective Old Paying Agent the amount necessary to accomplish the discharge and final payment of the Refunded Certificates on the redemption date. Such funds will be held by the Old Paying Agents until the redemption date. Under the terms of the Deposit Agreements, the funds are irrevocably pledged to the payment of the principal of and accrued interest on the Refunded Certificates.

SOURCES AND USES OF FUNDS . . . The proceeds from the sale of the Obligations will originate and be applied approximately as follows:

<u>Sources of Funds</u>	The Bonds	The Certificates
Par Amount of the Obligations	\$ 820,000.00	\$ 2,020,000.00
Accrued Interest from 08/01/1999 to 09/09/1999	3,722.42	10,869.06
Total Sources of Funds	\$ 823,722.42	\$ 2,030,869.06
 <u>Uses of Funds</u>		
Deposit to Project Construction Fund	\$ 0.00	\$ 1,941,000.00
Deposit with Old Paying Agents	792,092.00	0.00
Costs of Issuance *	19,472.20	54,720.85
Underwriter's Discount	7,380.00	18,180.00
Deposit to Debt Service Fund	3,722.42	10,869.06
Original Issue Discount (OID)	1,055.80	6,099.15
Total Uses of Funds	\$ 823,722.42	\$ 2,030,869.06

* Includes Gross Bond Insurance Premium

THE OBLIGATIONS

DESCRIPTION OF THE OBLIGATIONS . . . The Obligations are dated August 1, 1999, and mature on March 1, in each of the years and in the amounts shown on the inside cover pages hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on March 1 and September 1, commencing March 1, 2000. 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 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 "Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State, particularly Article 717k, VATCS, as amended, and the Bond Ordinance.

The Certificates are being issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, the home-rule charter of the City and the Certificate Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . The Obligations are direct obligations of the City payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, as provided in the respective Ordinances authorizing the Obligations. In addition, the Certificates are payable from and secured by a limited pledge (not to exceed \$1,000) of surplus net revenues of the City's Waterworks System as provided in the Certificate Ordinance. In the Certificate Ordinance, the City has reserved the right, at its sole discretion and without notice, to combine its waterworks system with other City-owned utility systems.

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. 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 service, as calculated at the time of issuance.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after March 1, 2010, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 2009, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities of Certificates to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the

principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

The Bonds are not subject to redemption prior to maturity.

NOTICE OF REDEMPTION . . . At least 30 days prior to the date fixed for any redemption of any Certificate or portions thereof prior to stated maturity, the City shall cause notice of such redemption to be sent by United States mail, first-class postage prepaid, to the registered owner of each Certificate or a portion thereof to be redeemed at its address as it appeared on the registration books of the Paying Agent/Registrar on the day such notice of redemption is mailed. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Certificates or portions thereof which are to be so redeemed. IF SUCH NOTICE OF REDEMPTION IS GIVEN AND IF DUE PROVISION FOR SUCH PAYMENT IS MADE, ALL AS PROVIDED ABOVE, THE CERTIFICATES OR PORTIONS THEREOF WHICH ARE TO BE SO REDEEMED THEREBY AUTOMATICALLY SHALL BE TREATED AS REDEEMED PRIOR TO THEIR SCHEDULED MATURITIES, AND THEY SHALL NOT BEAR INTEREST AFTER THE DATE FIXED FOR REDEMPTION, AND THEY SHALL NOT BE REGARDED AS BEING OUTSTANDING EXCEPT FOR THE RIGHT OF THE REGISTERED OWNER TO RECEIVE THE REDEMPTION PRICE FROM THE PAYING AGENT/REGISTRAR OUT OF THE FUNDS PROVIDED FOR SUCH PAYMENT.

AMENDMENTS TO THE ORDINANCES . . . In the Ordinances, the City has reserved the right to amend each Ordinance without the consent of any holder for the purpose of amending or supplementing the respective 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 respective Ordinance that do not materially adversely affect the interests of the holders, (v) qualify the respective Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect, or (vi) make such other provisions in regard to matters or questions arising under the respective 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.

The Ordinances further provide that the holders of the respective series of Obligations aggregating in principal amount 51% of the principal amount of such series outstanding shall have the right from time to time to approve any amendment not described above to the respective 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 Obligations of the applicable series, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Obligations of such series; (ii) reducing the rate of interest borne by any of the outstanding Obligations of such series; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Obligations of such series; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Obligations of such series or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Obligations of such series necessary for consent to such amendment. Reference is made to the Ordinances for further provisions relating to the amendment thereof.

DEFEASANCE OF OBLIGATIONS . . . Each Ordinance provides for the defeasance of the Obligations when payment of the principal of and premium, if any, on Obligations, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment or (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the respective series of Obligations. The Ordinances provide that "Defeasance Securities" means (1) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (2) 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 are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (3) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

BOOK-ENTRY-ONLY SYSTEM . . . The Depository Trust Company ("DTC"), New York, New York, 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). One fully-registered certificate will be issued for each maturity of the Obligations in the aggregate principal amount of each such maturity and will be deposited with DTC.

DTC 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 securities that its participants ("Direct Participants") deposit with DTC. DTC also

facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Obligations under the DTC system must be made by or through DTC Participants, which will receive a credit for such purchases 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 or 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 transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the 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 described herein 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. The deposit of Obligations with DTC and their registration in the name of Cede & Co. effect no 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 Participants to whose accounts 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.

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

Neither DTC nor Cede & Co. will consent or vote with respect to the Obligations. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the Record Date (hereinafter defined). 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).

Principal and interest payments on the Obligations will be made to DTC. DTC's practice is to credit Direct Participants' accounts on each payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on such payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest 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 one or both series of the Obligations at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor securities depository is not obtained, Obligations of the appropriate series 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) for one or both series of the Obligations. In that event, Obligations of the appropriate series will be printed and delivered.

DTC'S YEAR 2000 EFFORTS. . . DTC has established a Year 2000 Project Office and will provide information concerning DTC's Year 2000 compliance to persons requesting such information. The address is as follows: The Depository Trust Company, Year 2000 Project Office, 55 Water Street, New York, New York 10041. Telephone numbers for the DTC Year 2000 Project Office are (212) 855-8068 and (212) 855-8881. In addition, information concerning DTC's Year 2000 compliance can be obtained from its website at the following address: www.dtc.org

DTC management is aware that some computer applications, systems, and the like for processing date ("Systems") that are dependent upon calendar dates, including dates before, on, or after January 1, 2000, may encounter "Year 2000 Problems." DTC has informed its Participants and other members of the financial community (the "Industry") that it has developed and is implementing a program so that its Systems, as the same relate to the timely payment of distributions (including principal and

income payments) to security holders, book-entry deliveries, and settlement of trades within DTC ("DTC Services"), continue to function appropriately. This program includes a technical assessment and a remediation plan, each of which is complete. Additionally, DTC's plan includes a testing phase, which is expected to be completed within appropriate time frames.

However, DTC's ability to perform properly its services is also dependent upon other parties, including but not limited to issuers and their agents, as well as third party vendors from whom DTC licenses software and hardware, and third party vendors on whom DTC relies for information or the provision of services, including telecommunication and electrical utility service providers, among others. DTC has informed the Industry that it is contacting (and will continue to contact) third party vendors from whom DTC acquires services to: (i) impress upon them the importance of such services being Year 2000 compliant; and (ii) determine the extent of their efforts for Year 2000 remediation (and, as appropriate, testing) of their services. In addition, DTC is in the process of developing such contingency plans as it deems appropriate.

According to DTC, the foregoing information with respect to DTC has been provided to the Industry for informational purposes only and is not intended to serve as a representation, warranty, or contract modification of any kind.

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 Ordinance will be given only to DTC.

Information concerning DTC and the Book-Entry 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 or the Underwriter.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is The Bank of New York, New York, New York. In accordance with the Ordinances, the City has retained the right to replace the Paying Agent/Registrar for one or both series of the Obligations. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Obligations are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Obligations. Upon any change in the Paying Agent/Registrar for a series of the Obligations, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the respective series of the Obligations by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued for one or both series of the Obligations, the Obligations may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Obligations may be assigned by the execution of an assignment form on the respective 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 "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 Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Obligations on any interest payment date means the close of business on the 15th day of the preceding month.

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

OBLIGATIONHOLDERS' REMEDIES . . . The Ordinances do not establish specific events of default with respect to the Obligations. Under State law there is no right to the acceleration of maturity of the Obligations upon the failure of the City to observe any covenant under the respective Ordinance. Although a registered owner of Obligations could presumably obtain a judgment against the City if a default occurred in the payment of principal of or interest on any such Obligations, such judgment could not be satisfied by execution against any property of the City. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Obligations as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. The Ordinances do not provide for the appointment of a trustee to represent the interests of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinances, or upon any other condition. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code. Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Obligations are qualified with respect to the customary rights of debtors relative to their creditors.

MUNICIPAL BOND INSURANCE

The information contained or referred to in this Official Statement relating to the Insurer and the Policy has been provided by the Insurer. Such information has not been independently verified by the City or the Underwriter and is not guaranteed as to completeness or accuracy by the City or the Purchaser and is not to be construed as a representation of the City or the Underwriter. Reference is made to the specimen of the Policy attached hereto.

Concurrently with the issuance of the Obligations, Financial Guaranty Insurance Company ("Financial Guaranty" or "Insurer") will issue its Municipal Bond New Issue Insurance Policy for the Obligations (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Obligations which has become due for payment, but shall be unpaid by reason of nonpayment by the Purchaser of the Obligations. Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Obligations or the Paying Agent of the nonpayment of such amount by the City. The Fiscal Agent will disburse such amount due on any Obligation to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal and interest shall be vested in Financial Guaranty. The term "nonpayment" in respect of an Obligation includes any payment of principal or interest made to an owner of an Obligation which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Obligations. The Policy covers failure to pay principal of the Obligations on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Obligations may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

This Official Statement contains a section regarding the ratings assigned to the Obligations and references should be made to such section for a discussion of such ratings and the basis for their assignment to the Obligations. Reference should be made to the description of the City and the Obligations for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of March 31, 1999, the total capital and surplus of Financial Guaranty was \$1,274,619,558. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 115 Broadway, New York, New York 10006, Attention: Communications Department (telephone number: (212) 312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/ Casualty Bureau (telephone number: (212) 480-5187).

Year 2000 Readiness Disclosure. Financial Guaranty is aware of the potential disruptive effect of the Year 2000 problem and recognizes that it is possible that an issuer may be unable to make timely payment of debt service due to Year 2000 problems. Financial Guaranty is surveying selected issuers, trustees and paying agent to assess their Year 2000 readiness. Financial Guaranty believes that it has adequate sources of liquidity to cover any payments occasioned by an issuer's inability to make timely payment of debt service due to Year 2000 problems.

Commencing in early 1998, Financial Guaranty implemented an action plan to make its computer systems and applications Year 2000 ready. The target date for Year 2000 system readiness varies by system. Financial Guaranty's goal is to be Year 2000 ready for all systems and applications by mid-1999.

TAX INFORMATION

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

Reference is made to the V.T.C.A., 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: (1) 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; (2) An exemption of up to 20% of the market value of residence homesteads. The minimum exemption under this provision is \$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.

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.

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

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

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

The City and the other taxing bodies within its territory may agree to jointly create tax increment financing zones, under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. 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.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per \$100 taxable value for the current year. The 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 effective tax rate by more than 103% until it has held a public hearing 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 which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

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

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

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 15% attorney's collection fee is added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF TAX CODE . . . The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$7,500; the disabled are also granted an exemption of \$7,500.

The City has not granted any part of the additional exemption of up to 20% of the market value of residence homesteads, which is permitted on a local-option basis.

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; and the McLennan County Tax Office collects taxes for the City.

The City does not permit split payments of taxes, and discounts for the early payment of taxes are not allowed.

The City does not tax freeport property.

The City does not collect the additional one-half cent sales tax for reduction of ad valorem taxes.

The City has not adopted a tax abatement policy.

TABLE I - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

1998/99 Market Valuation Established by McLennan County Appraisal District (excluding totally exempt property)		\$ 156,864,637
Less Exemptions/Reductions at 100% Market Value:		
Over-65 or Disabled Homestead Exemptions	\$ 4,868,864	
Disabled or Deceased Veteran's Survivor(s) Exemptions	1,152,755	
Agricultural Use Reductions	559,157	
Value lost to 10% Per Year Cap on Residential Homesteads	66,069	6,646,845
1998/99 Taxable Assessed Valuation ⁽¹⁾		\$ 150,217,792
General Obligation Debt Payable from Ad Valorem Taxes (as of 8/1/99) ⁽²⁾		
The Certificates	\$ 2,020,000	
The Bonds	820,000	
General Obligation Debt Payable from Ad Valorem Taxes		\$ 2,840,000
General Obligation Interest and Sinking Fund as of 6/30/99		\$129,315
Ratio General Obligation Tax Debt to Taxable Assessed Valuation		1.89%

1999 Estimated Population - 8,650
Per Capita Taxable Assessed Valuation - \$17,366
Per Capita General Obligation Debt Payable from Ad Valorem Taxes - \$328

(1) The City's preliminary tax year 1999 taxable assessed valuation is \$153,578,503 as provided by the McLennan County Appraisal District.

(2) Excludes the Refunded Certificates.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	1999		1998		1997	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 61,511,177	39.21%	\$ 58,382,686	37.77%	\$ 56,673,328	37.90%
Real, Residential, Multi-Family	5,903,385	3.76%	5,800,133	3.75%	4,821,371	3.22%
Real, Vacant Lots/Tracts	4,053,643	2.58%	3,942,969	2.55%	3,076,869	2.06%
Real : Qualified Ag Land	1,595,863	1.02%	1,579,811	1.02%	1,672,492	1.12%
Real, Farm and Ranch Improvements	1,573,182	1.00%	1,589,031	1.03%	1,688,723	1.13%
Real, Commercial and Industrial	37,179,088	23.70%	37,480,440	24.25%	37,861,811	25.32%
Real & Tangible Personal; Utilities	12,364,804	7.88%	12,942,909	8.37%	11,606,644	7.76%
Personal; Commercial	28,688,716	18.29%	29,586,448	19.14%	29,263,270	19.57%
Personal; Industrial	471,750	0.30%	450,030	0.29%	385,475	0.26%
Mobile Homes	3,523,029	2.25%	2,826,479	0.01828	2,472,604	1.65%
Total Appraised Value Before Exemptions	\$ 156,864,637	100.00%	\$ 154,580,936	100.00%	\$ 149,522,587	100.00%
Less: Total Exemptions/Reductions	6,646,845		6,585,711		6,441,452	
Taxable Assessed Value	\$ 150,217,792 ⁽¹⁾		\$ 147,995,225		\$ 143,081,135	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	1996		1995	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 56,104,805	38.92%	\$ 54,947,966	41.81%
Real, Residential, Multi-Family	4,756,046	3.30%	4,739,889	3.61%
Real, Vacant Lots/Tracts	3,301,534	2.29%	3,251,616	2.47%
Real : Qualified Ag Land	1,633,884	1.13%	2,211,475	1.68%
Real, Farm and Ranch Improvements	1,617,540	1.12%	1,521,786	1.16%
Real, Commercial and Industrial	36,464,839	25.29%	27,000,452	20.54%
Real & Tangible Personal; Utilities	11,120,404	7.71%	10,840,064	8.25%
Personal; Commercial	26,609,767	18.46%	23,347,672	17.76%
Personal; Industrial	282,230	0.20%	1,518,840	1.16%
Mobile Homes	2,278,385	1.58%	2,058,104	1.57%
Total Appraised Value Before Exemptions	\$ 144,169,434	100.00%	\$ 131,437,864	100.00%
Less: Total Exemptions/Reductions	5,629,417		5,613,569	
Taxable Assessed Value	\$ 138,540,017		\$ 125,824,295	

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

(1) The City's preliminary tax year 1999 taxable assessed valuation is \$153,578,503 as provided by the McLennan County Appraisal District.

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
1995	8,350	\$ 125,824,295	\$ 15.069	\$ 1,600,000	1.27%	\$ 192
1996	8,460	138,540,017	16,376	1,405,000	1.01%	166
1997	8,500	143,081,135	16,833	1,195,000	0.84%	141
1998	8,550	147,995,225	17,309	995,000	0.67%	116
1999	8,650	150,217,792 ⁽³⁾	17,366	2,840,000 ⁽⁴⁾	1.89% ⁽⁴⁾	328 ⁽⁴⁾

(1) Source: City officials.

(2) As reported by the McLennan County Appraisal District on the City's annual State property tax reports; subject to change during the ensuing year.

(3) The City's preliminary tax year 1999 taxable assessed valuation is \$153,578,503 as provided by the McLennan County Appraisal District.

(4) Projected; includes the Obligations, excludes the Refunded Certificates.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund ⁽¹⁾	Tax Levy	% Current Collections	% Total Collections
1995	\$ 0.3705	\$ 0.2781	\$ 0.0924	\$ 466,171	96.47%	103.35%
1996	0.3674	0.2876	0.0798	509,066	96.33%	101.10%
1997	0.3705	0.2816	0.0889	530,139	96.68%	101.53%
1998	0.3711	0.3007	0.0704	549,149	96.99%	100.87%
1999	0.3651	0.2956	0.0695	548,589	93.02% ⁽¹⁾	95.00% ⁽¹⁾

(1) Collections for part year only, through May, 1999.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	1998/99 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Wal-Mart Stores, Inc	Department Store	\$ 16,556,400	11.02 %
Sam's Club East, Inc.	Department Store	5,584,970	3.72
Southwestern Bell Telephone Co.	Telephone Utility	5,327,700	3.55
Butt H. E. Grocery Co.	Grocery Store	3,781,028	2.52
James E. Moqavero Trustee	Real Property	3,001,499	2.00
Albertson's Inc. ⁽¹⁾	Grocery Store	2,330,962	1.55
FSF Eagle Crest Associates	Real Estate/Apartments	2,290,573	1.52
Texas Utilities Electric Co.	Electric Utility	2,257,440	1.50
TBA Associates LP	Real Property	2,014,057	1.34
American Bank N.A.	Bank	1,450,894	0.97
		<u>\$ 44,595,523</u>	<u>29.69 %</u>

(1) Albertson's grocery store closed several years ago. The property and building have remained on the tax roll; however, prior to January 1, 1999, a church bought the facility, and this property will now be totally exempt from property taxes.

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 "Tax Rate Limitation").

TABLE 6 - ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	1998/99		Total G.O. Tax Debt As of 8/1/99	Estimated % Applicable	Town's	Authorized But Unissued Debt As Of 8/1/99
	Taxable	1998/99			Overlapping	
	Assessed Value	Tax Rate			G.O. Tax Debt As of 8/1/99	
City of Bellmead	\$ 150,217,792	\$0.3651	\$ 2,840,000 ⁽¹⁾	100.00%	\$ 2,840,000 ⁽¹⁾	\$ 0
Connally ISD	220,569,294	1.4664	5,607,153	6.98%	391,379	0
La Vega ISD	270,864,245	1.5059	169,987	50.86%	86,455	0
McLennan County	4,980,529,896	0.4009	27,665,000	2.94%	813,351	0
McLennan County Junior College District	5,166,705,556	0.0892	0	2.94%	0	0
Total Direct and Overlapping G. O. Tax Debt					\$ 4,131,186	
Ratio of Direct and Overlapping G. O. Tax Debt to Taxable Assessed Valuation					2.75%	
Per Capita Direct and Overlapping G. O. Tax Debt					\$ 478	

(1) Includes the Obligations and excludes the Refunded Certificates.

DEBT INFORMATION

TABLE 7 - PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 9/30	Outstanding Debt ⁽¹⁾			The Certificates ⁽²⁾			The Bonds ⁽³⁾			Total Outstanding Debt	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total		
1999	\$ 205,000	\$ 65,665	\$ 270,665							\$ 270,665	
2000					\$ 111,551	\$ 111,551	\$ 135,000	\$ 35,740	\$ 170,740	282,291	
2001					102,970	102,970	140,000	27,398	167,398	270,368	
2002					102,970	102,970	145,000	21,304	166,304	269,274	
2003					102,970	102,970	150,000	14,813	164,813	267,783	25.45%
2004					102,970	102,970	160,000	7,875	167,875	270,845	
2005			\$ 80,000		101,070	181,070	90,000	2,138	92,138	273,208	
2006					175,000	94,708	269,708			269,708	
2007					185,000	85,528	270,528			270,528	
2008					195,000	75,838	270,838			270,838	54.52%
2009					200,000	65,865	265,865			265,865	
2010					215,000	55,490	270,490			270,490	
2011					225,000	44,434	269,434			269,434	
2012					235,000	32,701	267,701			267,701	
2013					250,000	20,150	270,150			270,150	91.46%
2014					260,000	6,825	266,825			266,825	100.00%
	<u>\$ 205,000</u>	<u>\$ 65,665</u>	<u>\$ 270,665</u>	<u>\$ 2,020,000</u>	<u>\$ 1,106,038</u>	<u>\$ 3,126,038</u>	<u>\$ 820,000</u>	<u>\$ 109,266</u>	<u>\$ 929,266</u>	<u>\$ 4,325,970</u>	

(1) "Outstanding Debt" does not include the Refunded Certificates.

(2) Average life of the issue - 10.702 years. Interest on the Certificates has been calculated at the rate of 5.142% for purposes of illustration.

(3) Average life of the issue - 2.986 years. Interest on the Bonds has been calculated at the rate of 4.839% for purposes of illustration.

TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Debt Service Requirements, Fiscal Year Ending 9/30/99	\$	270,665
Interest and Sinking Fund, 10/1/98	\$	112,192
Interest and Sinking Fund Tax Levy @ 95% Collection		99,264
Budgeted Transfers		15,000
Paid from Water Fund ⁽¹⁾		166,175
Estimated Investment Income		4,000
		<u>396,631</u>
Estimated Balance, 9/30/99	\$	125,966

(1) Historically, the debt service for the 1986 Certificates of Obligation has been paid directly from the City's Water fund.

TABLE 9 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

The City does not have any authorized but unissued general obligation debt.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . The City does not anticipate the issuance of additional general obligation debt within the next 24 months.

TABLE 10 - OTHER OBLIGATIONS

The City has no unfunded debt outstanding as of July 15, 1999.

PENSION FUND . . . The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System ("TMRS"), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see Appendix B, "Excerpts from the City's Annual Financial Report" - Note #6.)

FINANCIAL INFORMATION

TABLE 11 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
	1998	1997	1996	1995	1994
Revenues:					
Property Tax	\$ 448,118	\$ 413,025	\$ 402,508	\$ 361,845	\$ 344,124
Sales Tax	1,404,654	1,128,308	1,100,883	1,050,091	935,913
Hotel/Motel Tax	108,758	114,903	117,703	104,755	111,062
Intergovernmental	109,551	77,630	0	0	0
Grant Proceeds	0	0	14,588	0	0
Parks and Recreation Fees	69,329	62,097	74,701	48,277	60,337
Franchise Tax	370,751	368,528	349,301	331,341	324,530
Police Fines	266,463	270,640	220,941	202,249	198,192
Other Permits, Licenses and Fees	18,957	27,107	25,280	70,439	29,903
Interest	82,186	58,234	52,701	21,447	23,459
Miscellaneous	35,687	22,944	37,668	49,911	37,857
Total Revenues	\$ 2,914,454	\$ 2,543,416	\$ 2,396,274	\$ 2,240,355	\$ 2,065,377
Expenditures:					
General Government	\$ 656,044	\$ 556,898	\$ 677,497	\$ 557,657	\$ 524,448
Public Safety	1,057,276	1,020,278	1,267,383	830,414	794,358
Public Works	481,574	426,270	470,474	427,471	370,193
Culture and Recreation	330,078	284,828	154,725	167,064	142,347
Total Expenditures	\$ 2,524,972	\$ 2,288,274	\$ 2,570,079	\$ 1,982,606	\$ 1,831,346
Excess (Deficiency) of Revenues over Expenditures	\$ 389,482	\$ 255,142	\$ (173,805)	\$ 257,749	\$ 234,031
Operating Transfers In	\$ 44,915	\$ 40,000	\$ 44,822	\$ 0	\$ 79,937
Operating Transfers (Out)	(10,000)	(10,000)	(9,840)	(5,000)	(38,000)
Total Other Financing Sources (Uses)	34,915	30,000	34,982	(5,000)	41,937
Excess of Revenues and Other Sources Over (Under)					
Expenditures and Other Sources	\$ 424,397	\$ 285,142	\$ (138,823)	\$ 252,749	\$ 275,968
Beginning Fund Balance	\$ 1,185,980	\$ 900,838	\$ 1,039,661	\$ 786,912 ⁽¹⁾	\$ 427,684
Ending Fund Balance	\$ 1,610,377 ⁽²⁾	\$ 1,185,980	\$ 900,838	\$ 1,039,661	\$ 703,652 ⁽¹⁾

(1) Change in general fund balance was due to the implementation of a change in GASB accounting principles.

(2) For the fiscal year ending September 30, 1999, the City anticipates that the general fund balance will be drawn down by approximately \$300,000, primarily as a result of the purchase of a fire truck during the year.

TABLE 12 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, VATCS, 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 May, 1993, the voters of the City approved the imposition of an additional sales and use tax of one-half of one percent (½ of 1%) for economic development. Collection for the additional tax went into effect in October, 1993. The sales tax for economic development is collected solely for the benefit of Bellmead Economic Development Corporation (the "Corporation"), and may be pledged to secure payment of sales tax revenue bonds issued by the Corporation.

Fiscal Year Ended 9/30	Total Collected ⁽¹⁾⁽²⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita ⁽³⁾
1995	\$ 1,050,091	225.26%	\$ 0.8346	\$ 125.76
1996	1,100,883	216.26%	0.7946	130.13
1997	1,128,308	212.83%	0.7886	132.74
1998	1,404,654 ⁽⁴⁾	255.79%	0.9491	164.29
1999	966,114 ⁽⁵⁾	176.11%	0.6431	111.69

- (1) Excludes the sales tax for economic development.
- (2) While the Comptroller of Public Accounts, who collects sales taxes for the City, does not report on individual taxpayers, the City believes that approximately 50% of the sales tax collections are derived from Wal-Mart and Sam's Club.
- (3) Based on population estimates of City of Bellmead officials.
- (4) Includes an adjustment due to a business that had been incorrectly paying sales tax to the City of Waco.
- (5) Partial collections through June, 1999.

The sales tax breakdown for the City is as follows:

County Tax	½¢
Economic Development	½¢
City Sales & Use Tax	1¢
State Sales & Use Tax	6¼¢
Total	8¼¢

FINANCIAL POLICIES

Basis of Accounting . . . All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to pay liabilities of the current period. Revenues not considered available are recorded as deferred revenues. Expenditures are recorded when the liability is incurred except for (1) interest on general long-term obligations, which is recorded when due, and (2) the noncurrent portion of accrued vacation and sick leave, which is recorded in the general long-term debt account group.

In applying the susceptible-to-accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, moneys must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible-to-accrual criteria are met.

Property taxes and sales taxes are susceptible to accrual and are recognized as revenue provided they are collected within 60 days after year-end. Special assessments are recorded as revenue within 60 days after year-end. Special assessments are recorded as revenue in the year the individual installments are due. Licenses and permits, fines and forfeitures, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Unbilled service revenue is accrued in the proprietary funds.

Basis of Presentation - Fund Accounting . . . The operations of the City are recorded in the following fund types and account groups.

Governmental Fund Types - Governmental funds are used to account for the City's expendable financial resources and related liabilities (except those accounted for in proprietary funds). The measurement focus is upon determination of changes in financial position. The following are the City's governmental fund types.

General Fund - The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - The special revenue fund is used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to specified purposes. In addition, the financial activity of the Bellmead Development Corporation is a blended component unit of the City and is reflected in this fund.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Proprietary Fund Type - Proprietary funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income and capital maintenance. The City does not apply all applicable Financial Accounting Standards Board (FASB) pronouncements in accounting and reporting issued subsequent to November 30, 1989 for its proprietary operations. Following is the City's proprietary fund type.

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

Budgets and Budgetary Accounting . . . The City follows these procedures in establishing the budgetary data reflected in the financial statements.

- Prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget in accordance with generally accepted accounting principles for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing those expenditures.
- Public hearings are conducted at which all interested persons' comments concerning the budget are heard.
- The budget is legally enacted by the City Council. Budgetary control is maintained at the fund level.
- Budget revisions are made during the year.
- Formal budgetary integration is employed for the general fund and the debt service fund.
- Actual expenditures and operating transfers out may not legally exceed budget appropriations at the individual fund level.
- Appropriations lapse at the close of the fiscal year to the extent that they have not been expended or encumbered.

INVESTMENTS

The City of Bellmead invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the City Council of the City of Bellmead. Both state 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 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 of and interest on which are unconditionally 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, (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) certificates of deposit that are guaranteed or insured by the Federal Deposit Insurance Corporation or are secured as to principal by obligations described in the preceding clauses or in any other manner and amount provided by law for City deposits, (7) certificates of deposit and share certificates issued by a state or federal credit union domiciled in the State of Texas that 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 the clauses (1) through (5) or in any other manner and amount provided by law for City deposits, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) 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 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 regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio 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; invests exclusively in obligations described in the preceding clauses; and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. Beginning on September 1, 1999, governmental units in Texas will be authorized to invest in bonds issued, assumed, or guaranteed by the State of Israel.

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

INVESTMENT POLICIES . . . Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. 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, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

ADDITIONAL PROVISIONS . . . Under Texas law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) 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 imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) 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; (7) restrict the investment in mutual funds in the aggregate to no more than 80% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and 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; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements. Beginning September 1, 1999, the 80% limitation on investment in mutual funds in the aggregate will be removed. However, the restriction on investment of any portion of bond proceeds, reserves, and funds held for debt service, and of more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, will continue in force.

TABLE 13 - CURRENT INVESTMENTS

As of June 30, 1999, the City's investable funds were invested in the following categories:

<u>Description</u>	<u>% of Portfolio</u>	<u>Book Value</u>	<u>Market Value</u>
Certificates of Deposit	72.20%	\$ 1,254,478	\$ 1,285,672
TexPool	27.80%	483,022	483,022
Total	<u>100.00%</u>	<u>\$ 1,737,500</u>	<u>\$ 1,768,694</u>

As of such date, 100% of the City's investment portfolio will mature within twelve months. The market value of the investment portfolio was approximately 101.8% of its purchase price.

TexPool is a local government investment pool under the control of the Texas Comptroller of Public Accounts. The Comptroller has engaged Chase Bank of Texas, and its affiliates, to provide investment management and fund accounting services for TexPool. First Southwest Asset Management, Inc., an affiliate of First Southwest Company, provides customer service and marketing for the pool. TexPool currently maintains a AAAM rating from Standard & Poor's. The pool's investment objectives include achieving a stable net asset value of \$1.00 per share. Daily investment or redemption of funds is allowed by the participants.

TAX MATTERS

OPINION . . . On the date of initial delivery of the Obligations, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel, will render their opinions that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof, (1) interest on each series of the Obligations will be excludable from the "gross income" of the holders thereof and (2) each series of the Obligations 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 will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations. See Appendix C - Form of Bond Counsel's Opinion.

In rendering their opinions, Bond Counsel will rely upon (a) the City's no-arbitrage certificate, and (b) covenants of the City with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Obligations and certain other matters. Failure of the City to comply with these representations or covenants could cause the interest on the Obligations to become includable in gross income retroactively to the date of issuance of the Obligations.

The law upon which Bond Counsel have based their opinions 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 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.

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 (the "Original Issue Discount Bonds") may be less than the principal amount or the maturity amount, as the case may be, thereof, or one or more periods for the payment of interest on the Obligations may not be equal to the regular accrual period for the Obligations or be in excess of one year. 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 an 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 the 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 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 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 earned income credit, owners of an interest in a FASIT, certain S corporations with Subchapter C earnings and profits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

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. Section 55 of the Code imposes a tax equal to 20 percent for corporations, or 26 percent for non corporate taxpayers (28 percent for taxable excess exceeding \$175,000), of the taxpayer's "alternative minimum taxable income," if the amount of such alternative minimum tax is greater than the taxpayer's regular income tax for the taxable year.

Interest on the Obligations may be subject to the "branch profits tax" imposed by section 884 of the Code on the effectively-connected earnings and profits of a foreign corporation doing business in the United States.

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 Obligations, 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 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.

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible by such taxpayer in determining taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer which is a "financial institution" allocable to tax-exempt obligations, other than "specified private activity bonds," which are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any subordinate issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as referring to any corporation described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business which is subject to federal or state supervision as a financial institution.

The City expects to designate the Obligations as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the City will covenant to take such action which would assure or to refrain from such action which would adversely affect the treatment of the Obligations as "qualified tax-exempt obligations." Potential purchasers should be aware that if the issue price to the public (or, in the case of discount Obligations, the amount payable at maturity) exceeds \$10,000,000, then such obligations might fail to satisfy the \$10,000,000 limitation and the obligations would not be "qualified tax-exempt obligations."

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Obligations qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) regarding the City's continuing disclosure obligations because the City has not issued more than \$10,000,000 in aggregate amount of outstanding Obligations and no person subject to the Rule is committed by contract or other arrangement with respect to payment of the Obligations. Pursuant to the exemption, the City in the Ordinances has made the following agreement for the benefit of the holders and beneficial owners of the Obligations. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Obligations. Under the agreement, the City will be obligated to provide certain updated

financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

ANNUAL INFORMATION. . . The City will provide certain financial information and operating data which is customarily prepared by the City and is publicly available to any person upon request made to the City in writing; provided that the City reserves the right at any time to commence making filings of such information with the Texas State Information Depository (the "SID") in lieu of providing such information to persons upon request. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 5 and 7 through 13 and in Appendix B. The City will update and provide this information within 6 months after the end of each fiscal year ending in or after 1999.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each nationally recognized municipal securities information repository ("NRMSIR") and the SID of the change.

The Municipal Advisory Council of Texas has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the Municipal Advisory Council is 600 West 8th Street, P. O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947.

MATERIAL EVENT NOTICES. . . The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Obligations, if such event is material to a decision to purchase or sell Obligations: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (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 or events affecting the tax-exempt status of the Obligations; (7) modifications to rights of holders of the Obligations; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations; and (11) rating changes. (Neither the Obligations nor the Ordinances make any provision for debt service reserves or liquidity enhancement.). In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Information." The City will provide each notice described in this paragraph to the SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

AVAILABILITY OF INFORMATION FROM NRMSIRS AND SID. . . The City has agreed to provide the foregoing information only upon request to holders of the Obligations and to provide material event notices to the SID and to the NRMSIRs or the MSRB. The information will be available to holders of Obligations only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

Information agreed to be provided by the City on request may be obtained by contacting the City Secretary at 3015 Bellmead Drive, Bellmead, Texas 76705, (254) 799-2436.

LIMITATIONS AND AMENDMENTS. . . The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell 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 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 Obligations in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Obligations 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 Obligations. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the SEC Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the SEC Rule 15c2-12 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 . . . The City has not previously made a continuing disclosure agreement in accordance with SEC Rule 15c2-12.

OTHER INFORMATION

RATINGS

The Obligations are rated "AAA" by Standard & Poor's Ratings Service, a Division of the McGraw-Hill Companies, Inc. ("S&P") by virtue of an insurance policy to be issued by Financial Guaranty Insurance Company. The underlying rating for the tax-supported debt of the City is rated "BBB+" by S&P. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of the company, circumstances so warrant. Any such downward revision or withdrawal of such rating, 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 litigation against the City that would have a material adverse financial impact upon the City or its operations.

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 Obligations been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Obligations 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

Section 9 of the Bond Procedures Act provides that the Obligations "shall constitute negotiable instruments, and are investment securities governed by Chapter 8, Texas Uniform Commercial Code, notwithstanding any provisions of law or court decision to the contrary, and are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and trustees, and for the sinking fund of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State of Texas". The Obligations are eligible to secure deposits of any public funds of the state, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (V.T.C.A., Government Code, Chapter 2256), the Obligations may have to be assigned a rating of "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. No review by the City has been made of the laws in other states to determine whether the Obligations are legal investments for various institutions in those states.

LEGAL OPINIONS

The City will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Obligations, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bond and to the effect that the Obligations are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Obligations 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. In its capacity as Bond Counsel, McCall, Parkhurst & Horton L.L.P., has reviewed the information under captions "Plan of Financing", "The Obligations" (exclusive of subcaptions "Book-Entry-Only System"), "Tax Matters" and "Continuing Disclosure of Information" and the subcaptions "Legal Opinions" and "Legal Investments and Eligibility to Secure Public Funds in Texas" in the Official Statement and such firm is of the opinion that the information relating to the Obligations and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Obligations, such information conforms to the Ordinance. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Obligations is contingent on the sale and delivery of the Obligations. Certain legal matters will be passed upon by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, as Disclosure Counsel to the City.

YEAR 2000 ISSUE

The Year 2000 Issue arises because many existing computer programs use only the last two digits to refer to a year. Accordingly, computer systems that have data sensitive calculations or functions may not properly recognize the Year 2000. If not corrected, such computer programs could fail or cause erroneous results. The description herein of the Year 2000 Issue, and the City's efforts to address the issue, is not intended to be a complete description of the issue or all aspects of the City's response to the issue.

THE CITY'S RESPONSE TO THE YEAR 2000 ISSUE. . . . The City recognizes the Year 2000 Issue and has taken steps to resolve these issues. The City's financial reporting, payroll, and utility accounting system is in the remediation phase. Work has begun to replace a server that was not Year 2000 ready, and this work is expected to be completed by August 31, 1999. The City believes that its police and fire systems are all Year 2000 ready. Likewise, the City believes that its water distribution system is Year 2000 ready. The City was able to install its Year 2000 upgrades with an approximate budget impact of \$25,000. As was mentioned above, City staff is currently projecting that all of the City's systems will be year 2000 ready by August 31, 1999. Due to the unprecedented nature of the Year 2000 Issue, the success of the City's remediation efforts will not be fully determinable until the Year 2000 and thereafter.

DEPENDENCE ON OTHER ENTITIES . . . The City contracts with various third parties for services and supplies, including the McLennan County Appraisal District for property appraisal, McLennan County for tax collections, the Brazos River Authority for sewer services and TXU Electric for electric power. The City has polled such third parties with regard to whether they will be Year 2000 compliant on a timely basis. Both the Brazos River Authority and Texas Utilities have indicated that they are Year 2000 compliant; McLennan County is still addressing its Year 2000 issues. Although the City has no expectation that such third parties will experience disruption in the provision of their services, the City cannot control the operations of such parties and the City's ability to deliver municipal services and to conduct its affairs could be adversely impacted by any service interruptions.

POSSIBLE IMPACT OF THE YEAR 2000 ISSUE . . . If the City fails to identify or adequately address Year 2000 Issues in its computer systems and equipment, there could be a material adverse effect on the operations and financial condition of the City. In addition, the City is dependent on third parties for services and supplies and any adverse and material effects experienced by such third parties as a result of the Year 2000 Issue could have a material adverse effect on the ability of the City to deliver governmental services and/or its financial condition.

FINANCIAL ADVISOR

First Southwest Company 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. First Southwest Company, 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.

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the Obligations from the City, at an underwriting discount of \$25,560.00. The Underwriter will be obligated to purchase all of the Obligations if any Obligations are purchased. The Obligations to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Obligations into investment trusts) at prices lower than the public offering prices of such Obligations, and such public offering prices may be changed, from time to time, by the Underwriter.

MISCELLANEOUS

The financial data and other information contained herein have been obtained from the City's 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.

The Ordinances authorizing the issuance of the Obligations will also approve 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 Underwriter.

ELTON HALL
Mayor
City of Bellmead, Texas

ATTEST:

S.G. RADCLIFFE
City Secretary

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SCHEDULE OF REFUNDED CERTIFICATES

Combination Tax & Revenue Certificates of Obligation, Series 1986

Original Dated Date	Original Maturity (March 1)	Principal Amount	Amount Refunded	Interest Rates
<u>7/15/86</u>	<u>2000</u>	<u>\$ 140,000</u>	<u>\$ 140,000</u>	<u>8.00%</u>
	2001	140,000	140,000	7.00%
		<u>\$ 280,000</u>	<u>\$ 280,000</u>	

These Certificates will be redeemed prior to original maturity on September 14, 1999 at par.

Combination Tax & Revenue Certificates of Obligation, Series 1990

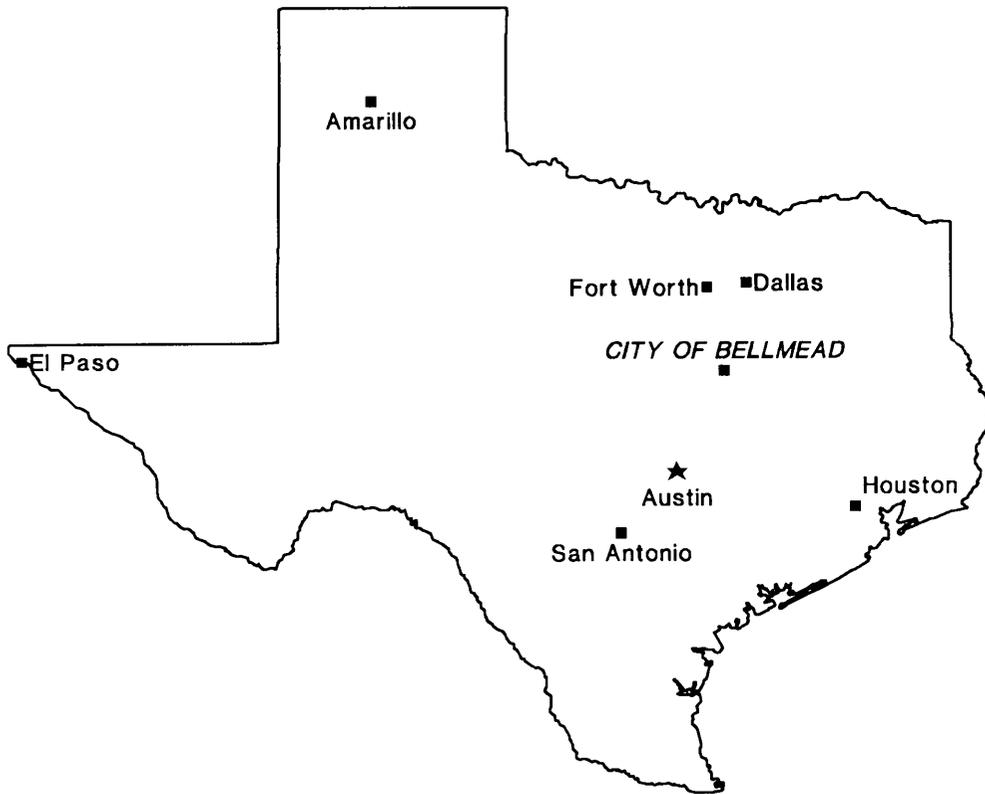
Original Dated Date	Original Maturity (March 1)	Principal Amount	Amount Refunded	Interest Rates
<u>1/1/90</u>	<u>2000</u>	<u>\$ 70,000</u>	<u>\$ 70,000</u>	<u>7.15%</u>
	2001	70,000	70,000	7.20%
	2002	120,000	120,000	7.25%
	2003	125,000	125,000	7.25%
	2004	125,000	125,000	7.30%
		<u>\$ 510,000</u>	<u>\$ 510,000</u>	

These Certificates will be redeemed prior to original maturity on September 14, 1999 at par.

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY



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THE CITY

The City of Bellmead is a residential area located three miles to the northeast of Waco on U.S. Highway 84. The 1990 census was 8,336, while the 1999 estimated population is 8,650.

ECONOMY

McLennan County is a leading transportation and market distribution center and government center for Central Texas; the County has a diversified manufacturing base; agribusiness and education are primary activities in the County. Minerals produced in the County include sand, gravel, limestone, oil and gas.

MAJOR EMPLOYERS

Major employers in and around Bellmead include the following.

<u>Name of Firm</u>	<u>Type of Business</u>	<u>Approximate Number of Employees</u>
Raytheon Systems Company	Aircraft Modifiers	2,000
Baylor University	Education	1,000
Plantation Foods	Processed Meats	1,000
Texas State Technical College	Technical Education	800
Fleetwood Homes	Manufactured Housing	700
Wal-Mart	Retail Sales	500
La Vega ISD	Education	250
Sam's Club	Retail Sales	200

BUILDING PERMIT HISTORY

Fiscal Year	Residential		Commercial		Total	
	Number of Units	Value	Number of Units	Value	Number of Units	Value
1994	9	\$ 741,480	4	\$ 139,200	13	\$ 880,680
1995	14	675,391	4	1,413,000	18	2,088,391
1996	23	1,340,600	4	443,000	27	1,783,600
1997	34	1,777,800	6	491,349	40	2,269,149
1998	22	1,434,000	1	87,000	23	1,521,000
1999 ⁽¹⁾	9	571,000	5	2,703,000	14	3,274,000

Source: City officials.

(1) Through June, 1999

LABOR FORCE ESTIMATES

	Annual Averages				
	1998	1997	1996	1995	1994
McLennan County					
Civilian Labor Force	100,966	99,966	98,949	99,449	97,626
Total Employment	96,654	95,348	94,534	94,869	92,997
Unemployment	4,312	4,618	4,415	4,580	4,629
Percent Unemployment	4.3%	4.6%	4.5%	4.6%	4.7%
State of Texas					
Civilian Labor Force	10,110,920	10,013,570	9,748,331	9,612,736	9,408,663
Total Employment	9,616,790	9,523,350	9,199,711	9,033,852	8,802,656
Unemployment	494,130	490,220	548,620	578,884	606,007
Percent Unemployment	4.9%	4.9%	5.6%	6.0%	6.4%

EFFECTIVE BUYING INCOME

The following was taken from the 1998 Sales and Marketing Management "Survey of Buying Power".

McLennan County	
% of Population Whose Age is:	
18-24	12.5%
25-34	13.6%
35-49	20.8%
50 and Over	27.0%
Households	76,300
Median Household Effective Buying Income	\$ 28,577
Total Effective Buying Income (\$000)	\$ 2,863,900
% of Households by EBI Group	
\$20,000 - \$34,999	22.3%
\$35,000 - \$49,999	16.4%
\$50,000 and Over	24.8%
Buying Power Index	0.0691
Total Retail Sales (\$000)	\$ 1,829,131

APPENDIX B

EXCERPTS FROM THE
CITY OF BELLMEAD, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 1998

The information contained in this Appendix consists of excerpts from the City of Bellmead, Texas Annual Financial Report for the Year Ended September 30, 1998, 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.

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JAYNES, REITMEIER, BOYD & THERRELL, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

CENTRAL TOWER
5400 BOSQUE BOULEVARD
POST OFFICE BOX 7616
WACO, TEXAS 76714-7616

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TELECOPIER
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Independent Auditors' Report

The Honorable Members of City Council
City of Bellmead, Texas:

We have audited the accompanying general purpose financial statements of the City of Bellmead, Texas, as of and for the year ended September 30, 1998. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Bellmead, Texas, as of September 30, 1998 and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with generally accepted accounting principles.

In our report dated November 25, 1998, we qualified our opinion on the 1998 general purpose financial statements because insufficient evidence existed to support the City of Bellmead, Texas' disclosures required by Governmental Accounting Standards Board (GASB) Technical Bulletin (TB) 98-1, *Disclosures About Year 2000 Issues*. As described in Note 13, the City of Bellmead, Texas has elected to retroactively adopt the provisions of GASB TB 99-1, *Disclosures About Year 2000 Issues – an amendment of Technical Bulletin 98-1*. Accordingly, our present opinion on the 1998 financial statements, as expressed herein, is different from our prior report on the 1998 financial statements.

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The year 2000 supplementary information on page 24 is not a required part of the basic financial statements but is supplementary information required by the GASB. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the City of Bellmead, Texas is or will become year 2000 compliance, that the City of Bellmead, Texas' year 2000 remediation efforts will be successful in whole or in part, or that parties with which the City of Bellmead, Texas does business are or will become year 2000 compliant.

Jaynes, Reitzman, Boyd & Threlkoff, P.C.

November 25, 1998, except for Note 13
which is as of June 23, 1999

City of Bellmead, Texas

Combined Balance Sheet - All Fund Types and Account Groups

September 30, 1998

(With Comparative Totals for September 30, 1997)

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
Assets			
Cash and cash equivalents (Note 5)	\$ 535,443	1,089,165	49,224
Investments (Note 5)	1,090,716	107,980	62,968
Receivables, net of allowances for uncollectibles of \$22,164 (Notes 2 and 4):			
Taxes	150,192	48,549	24,030
Accounts	9,713	-	-
Special assessments	-	-	-
Due from other funds	5,336	-	-
Grants	13,471	-	-
Other	13,391	156	-
Inventory	17,965	-	-
Restricted cash and cash equivalents (Note 5)	36,814	44,625	-
Restricted investments (Note 5)	-	-	-
Fixed assets (Note 3)	-	-	-
Amount available in debt service fund	-	-	-
Amount to be provided for general obligation debt	-	-	-
	<u>\$ 1,873,041</u>	<u>1,290,475</u>	<u>136,222</u>

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)	
		General Fixed Assets	General Long-Term Debt	1998	1997
Enterprise	Agency				
277,383	(34)	-	-	1,951,181	1,311,841
262,502	-	-	-	1,524,166	1,511,152
2,653	-	-	-	225,424	204,326
135,124	32	-	-	144,869	285,872
-	-	-	-	-	2,718
-	2	-	-	5,338	24,408
-	-	-	-	13,471	178,002
122,085	-	-	-	135,632	42,034
18,322	-	-	-	36,287	38,277
107,387	-	-	-	188,826	70,557
84,536	-	-	-	84,536	158,234
4,144,232	-	4,201,774	-	8,346,006	7,449,087
-	-	-	112,192	112,192	91,399
-	-	-	462,808	462,808	543,601
<u>5,154,224</u>	<u>-</u>	<u>4,201,774</u>	<u>575,000</u>	<u>13,230,736</u>	<u>11,911,508</u>

City of Bellmead, Texas

Combined Balance Sheet - All Fund Types and Account Groups

(Continued)

September 30, 1998

(With Comparative Totals for September 30, 1997)

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Liabilities			
Accounts payable	\$ 90,752	-	-
Due to other funds	5,338	-	-
Deferred revenue:			
Taxes	55,247	-	24,030
Special assessments	-	-	-
Deposits	-	-	-
Payable from restricted cash and investments (Note 4):			
Other payables	29	-	-
Accrued interest	-	-	-
Revenue bonds - current portion	-	-	-
Accrued vacation and salaries	111,298	-	-
Bonds payable (Note 4):			
General obligation	-	-	-
Revenue	-	-	-
Total liabilities	262,664	-	24,030
Fund Equity			
Contributed capital	-	-	-
Investment in general fixed assets	-	-	-
Retained earnings:			
Reserved for debt service	-	-	-
Unreserved	-	-	-
Fund balance:			
Reserved for inventory	17,965	-	-
Reserved for debt service	-	-	112,192
Unreserved:			
Designated for sewer improvements	-	152,187	-
Designated for street improvements	210,250	-	-
Designated for public safety	289,577	-	-
Undesignated	1,092,585	1,138,288	-
Total retained earnings and fund balance	1,610,377	1,290,475	112,192
Total fund equity	1,610,377	1,290,475	112,192
 Total liabilities and fund equity	\$ 1,873,041	1,290,475	136,222

See accompanying notes to the general purpose financial statements.

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)	
		General Fixed Assets	General Long-Term Debt	1998	1997
Enterprise	Agency				
105,807	-	-	-	196,559	155,178
-	-	-	-	5,338	24,408
-	-	-	-	79,277	77,015
-	-	-	-	-	2,718
155,984	-	-	-	155,984	145,806
-	-	-	-	29	-
2,654	-	-	-	2,654	3,558
140,000	-	-	-	140,000	140,000
20,881	-	-	-	132,179	116,783
-	-	-	575,000	575,000	635,000
280,000	-	-	-	280,000	420,000
<u>705,326</u>	<u>-</u>	<u>-</u>	<u>575,000</u>	<u>1,567,020</u>	<u>1,720,466</u>
2,629,332	-	-	-	2,629,332	2,161,924
-	-	4,201,774	-	4,201,774	3,950,674
22,177	-	-	-	22,177	5,714
1,797,389	-	-	-	1,797,389	1,766,840
-	-	-	-	17,965	17,847
-	-	-	-	112,192	91,399
-	-	-	-	152,187	669,709
-	-	-	-	210,250	194,959
-	-	-	-	289,577	178,081
-	-	-	-	2,230,873	1,153,895
<u>1,819,566</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,832,610</u>	<u>4,078,444</u>
<u>4,448,898</u>	<u>-</u>	<u>4,201,774</u>	<u>-</u>	<u>11,663,716</u>	<u>10,191,042</u>
<u>5,154,224</u>	<u>-</u>	<u>4,201,774</u>	<u>575,000</u>	<u>13,230,736</u>	<u>11,911,508</u>

City of Bellmead, Texas

Combined Statement of Revenue, Expenditures and
Changes in Fund Balances - All Governmental Fund Types

Year Ended September 30, 1998

(With Comparative Totals for Year Ended September 30, 1997)

	Governmental Fund Types			Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	1998	1997
Revenue:					
Property tax	\$ 448,118	-	105,783	553,901	538,259
Sales tax	1,404,654	694,969	-	2,099,623	1,685,417
Hotel/motel tax	108,758	-	-	108,758	114,903
Intergovernmental	109,551	-	-	109,551	77,630
Parks and recreation fees	69,329	-	-	69,329	62,097
Franchise tax	370,751	-	-	370,751	368,528
Police fines	266,463	-	-	266,463	270,640
Other permits, licenses and fees	18,957	-	-	18,957	27,107
Interest	82,186	53,206	4,032	139,424	129,683
Miscellaneous	35,687	-	-	35,687	22,944
	<u>2,914,454</u>	<u>748,175</u>	<u>109,815</u>	<u>3,772,444</u>	<u>3,297,208</u>
Expenditures:					
Current:					
General government	656,044	-	-	656,044	556,898
Public safety	1,057,276	-	-	1,057,276	1,020,278
Public works	481,574	486,211	-	967,785	1,260,632
Culture and recreation	330,078	-	-	330,078	284,828
Debt service:					
Principal retirement	-	-	60,000	60,000	75,000
Interest and fiscal charges	-	-	44,022	44,022	48,628
Total expenditures	<u>2,524,972</u>	<u>486,211</u>	<u>104,022</u>	<u>3,115,205</u>	<u>3,246,264</u>
Excess of revenue over expenditures	<u>389,482</u>	<u>261,964</u>	<u>5,793</u>	<u>657,239</u>	<u>50,944</u>
Other financing sources (uses):					
Operating transfers in	44,915	-	15,000	59,915	75,500
Operating transfers out	(10,000)	-	-	(10,000)	(10,000)
	<u>34,915</u>	<u>-</u>	<u>15,000</u>	<u>49,915</u>	<u>65,500</u>
Excess of revenue and other sources over expenditures and other uses	424,397	261,964	20,793	707,154	116,444
Fund balances at beginning of year	<u>1,185,980</u>	<u>1,028,511</u>	<u>91,399</u>	<u>2,305,890</u>	<u>2,189,446</u>
Fund balances at end of year	\$ <u>1,610,377</u>	<u>1,290,475</u>	<u>112,192</u>	<u>3,013,044</u>	<u>2,305,890</u>

See accompanying notes to the general purpose financial statements.

City of Bellmead, Texas

Combined Statement of Revenue, Expenditures and
Changes in Fund Balances - Budget and Actual - General and Debt Service Funds

Year Ended September 30, 1998

	General Fund		
	Revised Budget	Actual	Variance- Favorable (Unfavorable)
Revenue:			
Property tax	\$ 451,000	448,118	(2,882)
Sales tax	1,380,000	1,404,654	24,654
Hotel/motel tax	117,500	108,758	(8,742)
Grant proceeds	-	109,551	109,551
Parks and recreation fees	70,500	69,329	(1,171)
Franchise tax	370,000	370,751	751
Police fines and intergovernmental	363,000	266,463	(96,537)
Other permits, licenses and fees	21,000	18,957	(2,043)
Interest	52,000	82,186	30,186
Miscellaneous	50,000	35,687	(14,313)
Total revenue	<u>2,875,000</u>	<u>2,914,454</u>	<u>39,454</u>
Expenditures:			
General government	896,000	656,044	239,956
Public safety	1,143,800	1,057,276	86,524
Public works	532,700	481,574	51,126
Culture and recreation	334,000	330,078	3,922
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	<u>2,906,500</u>	<u>2,524,972</u>	<u>381,528</u>
Excess (deficiency) of revenue over expenditures	<u>(31,500)</u>	<u>389,482</u>	<u>420,982</u>
Other financing sources (uses):			
Operating transfers in	45,000	44,915	(85)
Operating transfers out	-	(10,000)	(10,000)
	<u>45,000</u>	<u>34,915</u>	<u>(10,085)</u>
Excess of revenue and other sources over expenditures and other uses	13,500	424,397	410,897
Fund balances at beginning of year	<u>1,185,980</u>	<u>1,185,980</u>	<u>-</u>
Fund balances at end of year	<u>\$ 1,199,480</u>	<u>1,610,377</u>	<u>410,897</u>

See accompanying notes to the general purpose financial statements.

Debt Service Fund			Totals (Memorandum Only)		
Revised Budget	Actual	Variance- Favorable (Unfavorable)	Revised Budget	Actual	Variance- Favorable (Unfavorable)
104,500	105,783	1,283	555,500	553,901	(1,599)
-	-	-	1,380,000	1,404,654	24,654
-	-	-	117,500	108,758	(8,742)
-	-	-	-	109,551	109,551
-	-	-	70,500	69,329	(1,171)
-	-	-	370,000	370,751	751
-	-	-	363,000	266,463	(96,537)
-	-	-	21,000	18,957	(2,043)
7,000	4,032	(2,968)	59,000	86,218	27,218
-	-	-	50,000	35,687	(14,313)
<u>111,500</u>	<u>109,815</u>	<u>(1,685)</u>	<u>2,986,500</u>	<u>3,024,269</u>	<u>37,769</u>
-	-	-	896,000	656,044	239,956
-	-	-	1,143,800	1,057,276	86,524
-	-	-	532,700	481,574	51,126
-	-	-	334,000	330,078	3,922
60,000	60,000	-	60,000	60,000	-
45,750	44,022	1,728	45,750	44,022	1,728
<u>105,750</u>	<u>104,022</u>	<u>1,728</u>	<u>3,012,250</u>	<u>2,628,994</u>	<u>383,256</u>
5,750	5,793	43	(25,750)	395,275	421,025
15,000	15,000	-	60,000	59,915	(85)
-	-	-	-	(10,000)	(10,000)
<u>15,000</u>	<u>15,000</u>	<u>-</u>	<u>60,000</u>	<u>49,915</u>	<u>(10,085)</u>
20,750	20,793	43	34,250	445,190	410,940
91,399	91,399	-	1,277,379	1,277,379	-
<u>112,149</u>	<u>112,192</u>	<u>43</u>	<u>1,311,629</u>	<u>1,722,569</u>	<u>410,940</u>

City of Bellmead, Texas

Statement of Revenue, Expenses and Changes in
Retained Earnings - Enterprise FundYear Ended September 30, 1998
(With Comparative Totals for the Year Ended September 30, 1997)

	<u>1998</u>	<u>1997</u>
Operating revenue:		
Water charges	\$ 1,476,667	1,419,399
Sewer charges	513,545	499,718
Water and sewer tap charges	11,555	12,605
Turn-on fees	15,471	12,432
Total operating revenue	<u>2,017,238</u>	<u>1,944,154</u>
Operating expenses:		
Salaries and benefits	520,801	498,222
Sewer project/grant	346,370	252,523
System repair and maintenance	85,869	68,114
Auto and equipment maintenance	28,496	34,498
Supplies	12,665	8,300
Office expense	21,141	15,676
Professional fees	14,135	13,424
Utilities	281,031	209,077
Sewer treatment cost	265,505	320,536
Bad debts	14,415	5,631
Depreciation	285,857	232,575
Insurance	24,948	24,542
Miscellaneous	20,231	8,993
Total operating expenses	<u>1,921,464</u>	<u>1,692,111</u>
Operating income	95,774	252,043
Nonoperating revenue (expenses):		
Grant revenue	-	250,000
Loss on disposal of fixed assets	-	(81,462)
Interest and miscellaneous	39,928	39,633
Interest expense and fiscal charges	(38,775)	(48,348)
Income before operating transfers	96,927	411,866
Operating transfers out	<u>(49,915)</u>	<u>(65,500)</u>
Net income	47,012	346,366
Retained earnings at beginning of year	<u>1,772,554</u>	<u>1,426,188</u>
Retained earnings at end of year	<u>\$ 1,819,566</u>	<u>1,772,554</u>

See accompanying notes to the general purpose financial statements.

City of Bellmead, Texas

Statement of Cash Flows - Enterprise Fund

Year Ended September 30, 1998

(With Comparative Totals for the Year Ended September 30, 1997)

	<u>1998</u>	<u>1997</u>
Cash flows from operating activities:		
Operating income	\$ 95,774	252,043
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	285,857	232,575
Changes in assets and liabilities:		
Decrease (increase) in due from other funds	24,364	(11,038)
Decrease (increase) in receivables	11,331	(28,530)
Decrease (increase) in grant receivables	178,002	(178,002)
Decrease (increase) in inventory	2,110	(5,827)
Increase (decrease) in accounts payable and accrued liabilities	1,268	(39,655)
Increase in deposits	10,178	8,248
Net cash provided by operating activities	<u>608,884</u>	<u>229,814</u>
Cash flows from non-capital financing activities:		
Grant	-	250,000
Operating transfer out	(49,915)	(65,500)
Net cash provided by (used for) non-capital financing activities	<u>(49,915)</u>	<u>184,500</u>
Cash flows used in capital and related financing activities:		
Principal paid on revenue bonds	(140,000)	(135,000)
Interest paid on revenue bonds	(38,775)	(48,348)
Acquisition and construction of fixed assets	(464,269)	(299,525)
Net cash used for capital and related financing activities	<u>(643,044)</u>	<u>(482,873)</u>
Cash flows from investing activities:		
Net purchase of investments	(14,299)	(6,211)
Investment income	39,928	39,633
Net cash provided by investing activities	<u>25,629</u>	<u>33,422</u>
Net decrease in cash and cash equivalents	(58,446)	(35,137)
Cash and cash equivalents at beginning of year	<u>443,216</u>	<u>478,353</u>
Cash and cash equivalents at end of year	<u>\$ 384,770</u>	<u>443,216</u>

See accompanying notes to the general purpose financial statements.

City of Bellmead, Texas

Notes to General Purpose Financial Statements

September 30, 1998

(1) Summary of Significant Accounting Policies

The City of Bellmead, Texas is a home-rule municipal corporation organized and existing under the provisions of the Constitution of the State of Texas. The City operates under a Council-Manager form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The following is a summary of the more significant policies:

(a) Reporting Entity

The accounting policies of the City conform to generally accepted accounting principles as applicable to governmental units. Generally accepted accounting principles require financial statements to present the government and its component units, entities for which the government is considered financially accountable.

Based on this criteria, the Bellmead Development Corporation has been included as a blended component unit. Blended component units, although legally separate entities, are, in substance, part of the government's operations and, therefore, data from these units are combined with data of the primary government. The Bellmead Development Corporation is responsible for certain economic development expenditures benefiting all citizens of the government financed by a portion of sales tax revenue and is governed by a board comprised of members of the government's council. The Bellmead Development Corporation has a September 30 year-end and is reported as a special revenue fund. Complete financial statements of the Bellmead Development Corporation may be obtained from the City of Bellmead.

(b) Basis of Presentation - Fund Accounting

The operations of the City are recorded in the following fund types and account groups.

Governmental Fund Types

Governmental funds are used to account for the City's expendable financial resources and related liabilities (except those accounted for in proprietary funds). The measurement focus is upon determination of changes in financial position. The following are the City's governmental fund types.

City of Bellmead, TexasNotes to General Purpose Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (continued)(b) Basis of Presentation - Fund Accounting (continued)Governmental Fund Types (continued)

General Fund - The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - The special revenue fund is used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to specified purposes. In addition, the financial activity of the Bellmead Development Corporation is a blended component unit of the City and is reflected in this fund.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Proprietary Fund Type

Proprietary funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income and capital maintenance. The City does not apply all applicable Financial Accounting Standards Board (FASB) pronouncements in accounting and reporting issued subsequent to November 30, 1989 for its proprietary operations. Following is the City's proprietary fund type.

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

Fiduciary Fund Type

Agency Funds - Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent. Agency funds are custodial in nature and do not involve measurement of results of operations.

City of Bellmead, Texas**Notes to General Purpose Financial Statements
(Continued)****(1) Summary of Significant Accounting Policies (continued)****(b) Basis of Presentation - Fund Accounting (continued)****Account Groups**

General Fixed Assets Account Group - This account group is used to account for all fixed assets of the City, other than those accounted for in the proprietary funds.

General Long-Term Debt Account Group - This account group is used to account for all long-term obligations of the City except those accounted for in the proprietary funds.

(c) Basis of Accounting

All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to pay liabilities of the current period. Revenues not considered available are recorded as deferred revenues. Expenditures are recorded when the liability is incurred except for (1) interest on general long-term obligations, which is recorded when due, and (2) the noncurrent portion of accrued vacation and sick leave, which is recorded in the general long-term debt account group.

In applying the susceptible-to-accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, moneys must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible-to-accrual criteria are met.

Property taxes and sales taxes are susceptible to accrual and are recognized as revenue provided they are collected within 60 days after year-end. Special assessments are recorded as revenue in the year the individual installments are due. Licenses and permits, fines and forfeitures, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned.

City of Bellmead, Texas**Notes to General Purpose Financial Statements
(Continued)****(1) Summary of Significant Accounting Policies (continued)****(c) Basis of Accounting (continued)**

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Unbilled service revenue is accrued in the proprietary funds.

(d) Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget in accordance with generally accepted accounting principles for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing those expenditures.
- Public hearings are conducted at which all interested persons' comments concerning the budget are heard.
- The budget is legally enacted by the City Council. Budgetary control is maintained at the fund level.
- Budget revisions are made during the year.
- Formal budgetary integration is employed for the general fund and the debt service fund.
- Actual expenditures and operating transfers out may not legally exceed budget appropriations at the individual fund level.
- Appropriations lapse at the close of the fiscal year to the extent that they have not been expended or encumbered.

City of Bellmead, Texas**Notes to General Purpose Financial Statements
(Continued)****(1) Summary of Significant Accounting Policies (continued)****(e) General Fixed Assets**

General fixed assets are recorded as expenditures in the governmental funds and capitalized at cost in the general fixed assets account group. All purchased assets are valued at cost where historical records are available and at estimated historical cost where no historical cost exist. Contributed fixed assets are recorded at their estimated fair market value at the time received. Depreciation is not provided on general fixed assets.

Certain improvements such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized as improvements.

(f) Property and Equipment - Proprietary Fund

Property and equipment used by the proprietary fund is stated at cost or estimated historical cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Depreciation is provided using the straight-line method over estimated useful lives of the assets.

(g) Investments

Investments are stated at cost, which approximates market.

(h) Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market. The cost of inventory is recorded as an expenditure at the time individual inventory items are consumed.

(i) Vacation Leave

City employees are granted vacation leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation days.

City of Bellmead, TexasNotes to General Purpose Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (continued)(i) Vacation Leave (continued)

For governmental funds, the cost of accumulated vacation leave expected to be paid in the next twelve months is recorded as a fund liability and amounts expected to be paid after twelve months are recorded in the general long-term debt account group. For proprietary funds, the cost of vacation leave is recorded as a liability when earned.

(j) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the general purpose financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

(k) Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Reservations of retained earnings are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change. The proprietary fund's contributed capital represents equity acquired through capital grants and capital contributions from developers, customers or other funds.

(l) Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) of the proprietary fund with a maturity of three months or less when purchased to be cash equivalents.

(m) Total Columns

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund eliminations have not been made.

City of Bellmead, Texas

Notes to General Purpose Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies (continued)

(n) Comparative Data/Reclassifications

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the government's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

(2) Property Taxes

The appraisal of property within the City is the responsibility of the McLennan County Appraisal District (the District). The District is required under the Property Tax Code to assess all property within the district on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The value of property within the district must be reviewed every four years.

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. The net assessed value upon which the fiscal 1998 levy was based was \$150,217,802. The City's maximum legal tax rate is \$1.85 per \$100 valuation; the current tax rate is \$.3711 per \$100 valuation.

Taxes are due by January 31 following the October 1 levy date. Current tax collections for the year ended September 30, 1998 were 99.2% of the tax levy.

(3) Fixed Assets

A summary of property and equipment of the enterprise fund as of September 30, 1998, follows:

<u>Description</u>	<u>Amount</u>	<u>Estimated Useful Life</u>
Land	\$ 19,986	-
Buildings and improvements	14,551	10 - 33 years
Water and sewer facilities	6,274,907	20 - 50 years
Equipment	<u>548,306</u>	5 - 15 years
	6,857,750	
Less accumulated depreciation	<u>2,713,518</u>	
	<u>\$ 4,144,232</u>	

City of Bellmead, Texas

Notes to General Purpose Financial Statements
(Continued)

(3) Fixed Assets (continued)

No interest was capitalized in 1998.

A summary of changes in general fixed assets follows:

	Balance October 1, <u>1997</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>1998</u>
Land	\$ 1,050,816	99,089	-	1,149,905
Equipment	2,009,948	146,555	-	2,156,503
Buildings and improvements	<u>889,910</u>	<u>5,456</u>	<u>-</u>	<u>895,366</u>
	<u>\$ 3,950,674</u>	<u>251,100</u>	<u>-</u>	<u>4,201,774</u>

Capital projects of governmental fund types in process are composed of the following at September 30, 1998:

	<u>Project Authorization</u>	<u>Expended to Date</u>	<u>Required Future Financing</u>
Sewer interception line	\$ <u>1,208,786</u>	<u>1,056,599</u>	<u>-</u>

Capital projects of the proprietary funds in process at September 30, 1998 are composed of the following:

	<u>Project Authorization</u>	<u>Expended to Date</u>	<u>Required Future Financing</u>
Sewer improvements	\$ <u>1,628,680</u>	<u>1,130,077</u>	<u>-</u>

The funds to meet the above obligations are to come from existing cash reserves.

City of Bellmead, Texas

Notes to General Purpose Financial Statements
(Continued)

(4) Long-Term Debt

The following is a summary of changes in long-term debt for the year ended September 30, 1998:

	<u>October 1, 1997</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 1998</u>
General long-term debt account group:				
General obligation bonds	\$ <u>635,000</u>	<u>-</u>	<u>60,000</u>	<u>575,000</u>
Enterprise fund:				
Revenue bonds	<u>560,000</u>	<u>-</u>	<u>140,000</u>	<u>420,000</u>
	\$ <u>1,195,000</u>	<u>-</u>	<u>200,000</u>	<u>995,000</u>

Long-term debt payable at September 30, 1998 is comprised of the following:

General obligation bonds:

\$900,000 - 1990 series combination tax and revenue
certificates of obligation due in annual installments
through 2004 at interest rates from 6.9 to 9.0 percent \$ 575,000

Revenue bonds:

\$1,580,000 - 1986 series combination tax and revenue
certificates of obligation due in annual installments
through 2001 at interest rates from 7.4 to 10 percent \$ 420,000

Debt service requirements for the City's bonds payable to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
General obligation bonds:			
1999	\$ 65,000	39,240	104,240
2000	70,000	34,430	104,430
2001	70,000	29,408	99,408
2002	120,000	22,538	142,538
To maturity	<u>250,000</u>	<u>18,219</u>	<u>268,219</u>
	\$ <u>575,000</u>	<u>143,835</u>	<u>718,835</u>

City of Bellmead, Texas

Notes to General Purpose Financial Statements
(Continued)

(4) Long-Term Debt (continued)

Revenue bonds:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 140,000	26,425	166,425
2000	140,000	15,400	155,400
2001	<u>140,000</u>	<u>4,900</u>	<u>144,900</u>
	\$ <u>420,000</u>	<u>46,725</u>	<u>466,725</u>

General property taxes are required to be assessed and collected each year sufficient to provide for payment of interest and principal on all general obligation bonds. Revenue bonds are issued to finance capital projects of the enterprise fund. Both the 1986 and 1990 certificates of obligation are combination tax and revenue bonds. As such, the bonds are secured by taxes and the surplus revenue of the enterprise fund. The City has elected to consider the 1986 certificates as revenue bonds and the 1990 certificates as general obligation debt.

The City is required under the provisions of the combination bond indentures to maintain interest and sinking funds adequate for payments of interest and principal and to assess tax unless surplus revenues of the enterprise fund are on deposit in the interest and sinking fund when ad valorem taxes are scheduled to be levied. There is no specific maximum debt limit established by law for the City; therefore, the limit is governed by the City's ability to levy and collect taxes.

(5) Cash and Investments

The City's cash and cash equivalents at September 30, 1998 were entirely covered by federal depository insurance or by collateral held by the City's custodial bank and pledged to the City.

Cash equivalents and investments of the City at September 30, 1998 consist of certificates of deposits of \$1,717,234 and deposits in the Texas Local Government Investment Pool (TexPool) of \$1,818,319. The City has delegated the authority to hold legal title to TexPool as custodian and to make investment purchases with the City's funds. The City does not own specific, identifiable investment securities of the pool; consequently, no disclosure of categories of credit risk is made.

City of Bellmead, Texas**Notes to General Purpose Financial Statements
(Continued)****(5) Cash and Investments (continued)**

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. TexPool operates in a manner consistent with the Securities and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than the market value to report net assets to computer share prices. Accordingly, the fair value of the position of TexPool is the same as the value of TexPool shares.

(6) Employee Benefit Plan**(a) Plan Description**

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 700 administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues a publicly available financial report that may be obtained by writing to Texas Municipal Retirement System, P. O. Box 149153, Austin, Texas 78714-9153.

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

City of Bellmead, Texas

Notes to General Purpose Financial Statements
(Continued)

(5) Employee Benefit Plan (continued)

(a) Plan Description (continued)

Members can retire at ages 60 and above with 10 or more years of service or with 25 years of service regardless of age. A member is vested after 10 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and with the actuarial constraints also in the statutes.

(b) Contributions

The contribution rate for the employees is 6%, and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. When the City periodically adopts updated service credits and increases in annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period, which began January 1997. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 1997 valuation is effective for rates beginning January 1999.)

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
1998	\$ 101,703	100%	\$ -
1997	81,761	100%	-
1996	68,624	100%	-

City of Bellmead, Texas

Notes to General Purpose Financial Statements
(Continued)

(6) Employee Benefit Plan (continued)

(b) Contributions

A schedule of funding progress of the plan is as follows:

<u>Actuarial Valuation December 31,</u>	<u>Actuarial Value of Cost (APC)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratios</u>	<u>Estimated Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
1997	\$ 2,140,884	2,463,017	322,133	86.9%	1,445,000	22.3%
1996	1,850,750	2,042,783	192,033	45.3%	1,395,000	64.6%
1995	1,617,181	1,787,584	170,403	48.4%	1,268,000	65.8%

(7) Commitments and Contingencies

The City has entered into a contract with the Brazos River Authority (BRA), a conservation and reclamation district created by an act of legislature, whereby BRA is to receive, treat and dispose of the City's sewage. This contract will expire in the year 2011. The City is being charged a monthly amount for sewer services provided by BRA. The cost of this service was \$265,505 for the year ended September 30, 1998.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City was awarded a grant for sewer repair and replacement totaling \$250,000 which required \$100,000 in local funds. The project was started in fiscal year 1997 with \$250,000 in grant funds received in the year ending September 30, 1997. In addition, the City approved expending an additional \$2,837,466 on the sewer project, of which \$2,186,676 has been expended as of September 30, 1998.

City of Bellmead, Texas

Notes to General Purpose Financial Statements
(Continued)

(8) Contributed Capital

The changes in the City's contributed capital account for its proprietary fund are as follows:

Beginning balance	\$ 2,161,924
Contributed by governmental fund types	<u>467,408</u>
Ending balance	\$ <u>2,629,332</u>

(9) Conduit Debt Obligations

In 1989, the City issued industrial revenue bonds to provide financial assistance to private - sector entities for the acquisition and construction of commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of September 30, 1998, there were industrial revenue bonds outstanding with an aggregate principal amount payable of \$1,150,000.

(10) Authoritative Pronouncements Not Yet Adopted

In November 1997, the GASB issued Interpretation No. 5, "Property Tax Revenue Recognition in Governmental Funds." This Interpretation amends current authoritative literature by modifying the definition of *available* as the term relates to property tax revenue recognition using the modified accrual basis of accounting. The effect of this amendment is to remove the "due" consideration from the definition of *available*. The provisions of this Interpretation are effective for financial statements for periods beginning after June 15, 2000. The City has not yet determined the effects of the Interpretation on the general purpose financial statements.

(11) Purchase Commitment

Commitment for the purchase of a fire truck at September 30, 1998 was \$600,000.

City of Bellmead, Texas**Notes to General Purpose Financial Statements
(Continued)****(12) Supplemental Cash Flow Disclosure**

Fixed assets contributed to and capitalized in the Enterprise Fund totaled \$467,408 and \$958,002 in 1998 and 1997, respectively.

(13) Required Supplementary Information About Year 2000 Issues

On March 29, 1999, the Governmental Accounting Standards Board (GASB) issued Technical Bulletin (TB) 99-1, *Disclosures About Year 2000 Issues – an amendment of Technical Bulletin 98-1*. The amendment, among other things, provides that required year 2000 disclosures may be reported as required supplementary information. Retroactive application of TB 99-1 is permitted. The City of Bellmead has elected to apply TB 99-1 retroactively for its 1998 general purpose financial statements, and to present the year 2000 disclosures as required supplementary information on page 24.

Required Supplemental Information

City of Bellmead, Texas**Year 2000 Issues****September 30, 1998**

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other computer equipment that may adversely affect the City's operations as early as 1999.

The City has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conduct the day to day operations of the City. The City has identified the following systems requiring year 2000 remediation:

- *Financial reporting, payroll and utility accounting* – Remediation, validation and testing have been completed for financial reporting, payroll and utility accounting.
- *Communications system* - Remediation efforts are in process for the City's communications system including police and fire emergency reporting system.
- *Tax collection* – Tax collection for the City is handled by McLennan County. The County is responsible for the remediation process for the tax collection system and is solely responsible for the resulting costs.
- *Water distribution* – The water distribution system is year 2000 compliant.
- *Wastewater systems* – Brazos River Authority is responsible for the wastewater systems and is solely responsible for the year 2000 costs.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the City is or will be year 2000 ready, that the City's remediation efforts will be successful in whole or in part, or that parties with whom the City does business will be year 2000 ready.

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APPENDIX C

FORMS OF BOND COUNSEL'S OPINION

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Proposed Form of Opinion of Bond Counsel

An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Certificates, assuming no material changes in facts or law.

**CITY OF BELLMEAD, TEXAS,
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION,
SERIES 1999,
DATED AUGUST 1, 1999,
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$2,020,000**

AS BOND COUNSEL for the City of Bellmead, Texas, the issuer (the "Issuer") of the Certificates of Obligation described above (the "Certificates"), we have examined into the legality and validity of the Certificates, which bear interest from the date specified in the text of the Certificates, until maturity or redemption, at the rates and payable on the dates as stated in the text of the Certificates, and maturing in serial installments on March 1 in each of the years 2005 through 2014, all in accordance with the terms and conditions stated in the text of the Certificates.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Certificates, including one of the executed Certificates (Certificate Number T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that said Certificates have been authorized, issued and delivered in accordance with law; and that except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally, the Certificates constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Certificates have been levied and pledged for such purpose, within the limit prescribed by law, and that the Certificates are additionally secured by revenues in an amount not to exceed \$1,000 over the life of the Certificates of the Issuer's Waterworks System that remain after the payment of all maintenance and operation expenses thereof, and all debt service, reserve and other requirements in connection with all of the Issuer's revenue obligations (now or hereafter outstanding) that are secured by a lien on all or any part of the Net Revenues of the Issuer's Waterworks System, all as provided in the Ordinance of the Issuer authorizing the issuance of the Certificates.

IN OUR OPINION, except as discussed below, the interest on the Certificates is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the

Certificates are not "specified private activity bonds" and that, accordingly, interest on the Certificates will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, and assume compliance by the Issuer with, certain representations and covenants regarding the use and investment of the proceeds of the Certificates. We call your attention to the fact that failure by the Issuer to comply with such representations and covenants may cause the interest on the Certificates to become includable in gross income retroactively to the date of issuance of the Certificates.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Certificates, is (a) included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code, (b) subject to the branch profits tax imposed on foreign corporations by section 884 of the Code and (c) included in the passive investment income of an S corporation and subject to the tax imposed by section 1375 of the Code.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Certificates.

WE HAVE ACTED AS BOND COUNSEL for the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. We express no opinion and make no comment with respect to the marketability of the Certificates and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, assessed valuation of taxable property within, and the sufficiency of the pledged revenues of, the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

Respectfully,

Proposed Form of Opinion of Bond Counsel

An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Certificates, assuming no material changes in facts or law.

**CITY OF BELLMEAD, TEXAS,
GENERAL OBLIGATION REFUNDING BONDS,
SERIES 1999,
DATED AUGUST 1, 1999,
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$820,000**

AS BOND COUNSEL for the City of Bellmead, Texas, the issuer (the "Issuer") of the Bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the date specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates as stated in the text of the Bonds, and maturing in serial installments on March 1 in each of the years 2000 through 2005, inclusive, all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and a transcript of certified proceedings of the Issuer, the Deposit Agreements dated as of August 1, 1999 between the Issuer and The Bank of New York, New York, New York, as Escrow Agent, and Chase Bank of Texas, National Association, as Escrow Agent, respectively (the "Deposit Agreements"), and other pertinent instruments authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Certificate Number T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Deposit Agreements have been duly authorized, executed, and delivered by the parties thereto and constitutes a binding and enforceable agreement of the parties thereto and in accordance with its terms, and that the Refunded Certificates, as defined in the ordinance of the Issuer authorizing the Bonds (the "Bond Ordinance"), in the aggregate principal amount of \$790,000 being refunded by the Bonds, are outstanding only for the purpose of receiving the funds provided by, and are secured by, and payable solely from, the Deposit Agreements and the cash and investments, including the income therefrom, held by the Escrow Agents pursuant to the Deposit Agreements. In rendering this opinion, we have relied upon the certification of the Escrow Agents as to the sufficiency of the cash and investments deposited with the Escrow Agents pursuant to the Deposit Agreements for the purpose of paying such Refunded Bonds to be retired with the proceeds of the Bonds and the interest thereon.

IT IS FURTHER OUR OPINION that said Bonds have been authorized, issued and delivered in accordance with law; and that except as may be limited by laws applicable to the Issuer relating to

bankruptcy, reorganization and other similar matters affecting creditors' rights generally, the Bonds constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Bonds have been levied and pledged for such purpose, within the limit prescribed by law, all as provided in the Bond Ordinance.

IN OUR OPINION, except as discussed below, the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, and assume compliance by the Issuer with, certain representations and covenants regarding the use and investment of the proceeds of the Bonds. We call your attention to the fact that failure by the Issuer to comply with such representations and covenants may cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, is (a) included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code, (b) subject to the branch profits tax imposed on foreign corporations by section 884 of the Code and (c) included in the passive investment income of an S corporation and subject to the tax imposed by section 1375 of the Code.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds.

WE HAVE ACTED AS BOND COUNSEL for the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, assessed valuation of taxable property within, and the sufficiency of the pledged revenues of, the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,

APPENDIX D

SPECIMEN OF BOND INSURANCE POLICY



Financial Guaranty Insurance
 Company
 115 Broadway
 New York, NY 10006
 (212) 312-3000
 (800) 352-0001

A GE Capital Company

Municipal Bond New Issue Insurance Policy

Issuer:	Policy Number:
	Control Number: 0010001
Bonds:	Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Municipal Bond New Issue Insurance Policy

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

A handwritten signature in black ink, appearing to be "A. L. H.", with a long horizontal flourish extending to the right.

President

Effective Date:

Authorized Representative

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

A handwritten signature in black ink, appearing to be "Quincy Jones", with a long horizontal flourish extending to the right.

Authorized Officer

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Endorsement
To Financial Guaranty Insurance Company
Insurance Policy

Policy Number:

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer

State Street Bank and Trust Company, N.A., as Fiscal Agent

FGIC is a registered service mark used by Financial Guaranty Insurance Company under license from its parent company, FGIC Corporation.

Financial Advisory Services
Provided By



FIRST SOUTHWEST COMPANY

INVESTMENT BANKERS