

NEW ISSUE - Book-Entry-Only

Ratings: Fitch: Applied For  
Moody's: Applied For  
S&P: Applied For  
(See "RATINGS" herein)

In the opinion of Bond Counsel (identified below), assuming continuing compliance by the City (defined below) after the date of initial delivery of the Certificates (defined below) with certain covenants contained in the Ordinance (defined below) and subject to the matters set forth under "TAX MATTERS" herein, interest on the Certificates for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Certificates, except for interest on any Certificate during any period while it is held by a person who is a "substantial user" of any of the facilities financed with the proceeds of the Certificates or by a "related person", as such term is defined in section 147(a) of the Code; HOWEVER INTEREST ON THE CERTIFICATES WILL BE INCLUDED IN COMPUTING THE ALTERNATIVE MINIMUM TAXABLE INCOME OF THE OWNERS THEREOF WHICH ARE INDIVIDUALS OR CORPORATIONS.

CITY OF CORPUS CHRISTI, TEXAS

\$5,970,000\*

COMBINATION TAX AND SURPLUS AIRPORT REVENUE CERTIFICATES OF OBLIGATION, SERIES 2012 (AMT)

Dated Date: August 1, 2012

Due: March 1, as shown on inside cover page

The City of Corpus Christi, Texas (the "City") is issuing its \$5,970,000\* Combination Tax and Surplus Airport Revenue Certificates of Obligation, Series 2012 (AMT) (the "Certificates"). The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, including particularly the Certificate of Obligation Act of 1971, Chapter 271, Subchapter C, as amended, Texas Local Government Code, Chapter 22, as amended, Texas Transportation Code, Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), Chapter 1503, as amended, Texas Government Code, the City's Home Rule Charter (the "Charter"), and an ordinance adopted by the City Council of the City (the "City Council") on July 31, 2012 (the "Ordinance"). In the Ordinance, as permitted by the provisions of Chapter 1371, the City Council delegated the authority to certain City officials to approve the final pricing structure and certain other matters relating to the Certificates, which final sales terms will be evidenced in an "Approval Certificate" relating to the Certificates.

The Certificates are general obligations of the City and ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Certificates, as such interest and principal become due, have been levied and ordered to be levied against all taxable property in the City, and have been pledged for such payment within the limits prescribed by law. Solely to comply with Texas law allowing the Certificates to be sold for cash, the Certificates are additionally secured by and payable from a lien on and pledge of the Pledged Revenues (anticipated to be in the amount of \$1,000) derived from the operation of the City's Airport System, such lien and pledge, however, being subordinate and inferior to the lien on and pledge of the Net Revenues which are pledged to the payment of any Prior Lien Bonds, Junior Lien Bonds, or Subordinate Lien Obligations hereinafter issued by the City. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (as described and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues of the City's Airport System (as described and defined in the Ordinance) in the manner provided in the City ordinance authorizing the issuance of the Limited Pledge Obligations. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations, while the Certificates are outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise. (See "THE CERTIFICATES - Security and Source of Payment" and "EFFECT OF THE TAX RATE LIMITATION" herein.)

Interest on the Certificates will accrue from the dated date thereof specified above and will be payable on March 1, 2013, and on each September 1 and March 1 thereafter until stated maturity or prior redemption. The City intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC"), but reserves the right on its behalf or on behalf of DTC to discontinue such system. Principal of the Certificates will be payable by the paying agent/registrant (the "Paying Agent/Registrar"), initially \_\_\_\_\_, \_\_\_\_\_, Texas. The definitive Certificates will be registered in the name of Cede & Co., as nominee of DTC. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer relating to the Certificates. DTC will be responsible for distributing the principal and interest payments to the participating members of DTC and the participating members will be responsible for distributing the payment to the owners of beneficial interest in the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" herein.) So long as the Certificates are in Book-Entry-Only form, DTC will be the securities depository therefor, Cede & Co., as nominee for DTC, will be the Registered Owner of the Certificates, and references herein to Registered Owners shall mean Cede & Co. and not the beneficial owners of the Certificates.

SEE FOLLOWING PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS AND REDEMPTION PROVISIONS RELATING TO THE CERTIFICATES

The Certificates are offered for delivery, when issued, to the initial purchasers thereof named below (the "Underwriters") subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Fulbright & Jaworski L.L.P., Bond Counsel for the City (see "LEGAL MATTERS" and "TAX MATTERS"). Certain legal matters will be passed upon for the City by the City Attorney and for the Underwriters by their counsel, \_\_\_\_\_, \_\_\_\_\_, Texas. It is anticipated that the definitive Certificates will be tendered for delivery through the services of DTC on or about August 28, 2012.

[TO COME]

\* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion and amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

## CITY OF CORPUS CHRISTI, TEXAS

## STATED MATURITY SCHEDULE

\$5,970,000\*

Combination Tax and Surplus Airport Revenue Certificates of Obligation, Series 2012 (AMT)

<u>Stated Maturity (March 1)</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate (%)</u>	<u>Initial Yield (%)</u>	<u>CUSIP No. Suffix<sup>(1)</sup></u>	<u>Stated Maturity (March 1)</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate (%)</u>	<u>Initial Yield (%)</u>	<u>CUSIP No. Suffix<sup>(1)</sup></u>
2015	185,000				2027	255,000			
2016	190,000				2028	265,000			
2017	195,000				2029	275,000			
2018	200,000				2030	285,000			
2019	200,000				2031	295,000			
2020	205,000				2032	305,000			
2021	210,000				2033	320,000			
2022	220,000				2034	330,000			
2023	225,000				2035	345,000			
2024	230,000				2036	365,000			
2025	240,000				2037	380,000			
2026	250,000								

(Accrued interest from the Dated Date to be added)

**Redemption.** The Certificates stated to mature on and after March 1, 20\_\_, are subject to redemption, at the option of the City, in whole or in part, on March 1, 20\_\_ or any date thereafter, at the price of par plus accrued interest to the date fixed for redemption. Any Term Certificates (defined herein) will be subject to mandatory sinking fund redemption. (See "THE CERTIFICATES – Redemption" herein.)

*[The remainder of this page intentionally left blank.]*

\* Preliminary, subject to change.

<sup>(1)</sup> CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriters, the City nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

## USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

No dealer, broker, salesman or other person has been authorized 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, the Financial Advisor, or the Underwriters.

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. 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.

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

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

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

The agreements of the City and others related to the Certificates are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Certificates is to be construed as constituting an agreement with the purchasers of the Certificates. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

None of the City, the Financial Advisor, nor the Underwriters make any representation or warranty with respect to the accuracy, completeness, or adequacy of the information contained in this Official Statement regarding The Depository Trust Company (“DTC”) or its Book-Entry-Only System, appearing under the caption “BOOK-ENTRY-ONLY SYSTEM”, as such information has been provided by DTC.

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**City of Corpus Christi, Texas  
1201 Leopard  
Corpus Christi, Texas 78401  
(361) 880-3105**

**CITY ADMINISTRATION AND  
ELECTED OFFICIALS**

**Mayor**  
Joe Adame

**City Council Members**

Kelly Allen <sup>(1)</sup>	District 1
John Marez	District 2
Priscilla Leal	District 3
Chris Adler	District 4
Larry Elizondo, Sr.	District 5
David Loeb	At Large
Mark Scott	At Large
Nelda Martinez	At Large

<sup>(1)</sup> Mr. Kevin Kieschnick tendered his resignation as District 1 Councilman on January 4, 2012 to accept an appointment as the Nueces County Tax Assessor/Collector. The City Charter provides that the City Council, by majority vote, appoint a replacement to fill this vacancy for the remainder of Mr. Kieschnick's unexpired term. The City Council appointed Mr. Kelly Allen as Mr. Kieschnick's replacement at its January 24, 2012 meeting.

**CERTAIN APPOINTED OFFICIALS**

<b><u>Name</u></b>	<b><u>Position</u></b>
Ronald L. Olson	City Manager
Toby Futrell	Interim Assistant City Manager for Business Support Services
Troy Riggs	Assistant City Manager for Safety, Health, and Neighborhoods
Oscar R. Martinez	Assistant City Manager for Public Works, Utilities, & Transportation
Margie C. Rose	Assistant City Manager for General Government & Operations Support
Constance P. Sanchez	Director of Financial Services
Carlos Valdez	City Attorney
Armando Chapa	City Secretary

**CONSULTANTS AND ADVISORS**

Bond Counsel	Fulbright & Jaworski L.L.P., San Antonio, Texas
Paying Agent/Registrar	_____, _____, Texas
Independent Certified Public Accountants	Collier, Johnson & Woods, P.C., Corpus Christi, Texas
Financial Advisors	M. E. Allison & Co., Inc., San Antonio, Texas

For additional information regarding the City, please contact:

Ms. Constance P. Sanchez  
City of Corpus Christi, Texas  
1201 Leopard  
Corpus Christi, Texas 78401  
(361) 826-3227  
Fax (361) 880-3601  
constancep@cctexas.com

or

Mr. Mark A. Seal  
M.E. Allison & Co., Inc.  
950 East Basse Road, Second Floor  
San Antonio, Texas 78209  
(210) 930-4000  
Fax (210) 930-4001  
mseal@meallison.com

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

## SUMMARY STATEMENT

This Summary Statement is subject to the more complete information and to the definitions contained or incorporated in this Official Statement. The offering of the Certificates (defined herein) to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this Summary Statement from this Official Statement or to otherwise use it without the entire Official Statement.

The Issuer	The Certificates are issued by the City of Corpus Christi, Texas (the “City” or the “Issuer”), a home rule municipality and a body corporate and politic of the State of Texas.
Issue and Date	The City is issuing its \$5,970,000* Combination Tax and Surplus Airport Revenue Certificates of Obligation, Series 2012 (AMT) (the “Certificates”). The Certificates are dated as of August 1, 2012.
Use of Proceeds	The proceeds of the Certificates will be used to make public improvements within the City being, specifically, the construction, acquisition, purchase, equipment, renovation, enlargement, and improvement of the City’s airport facilities, and to pay the costs of issuance of the Certificates. (See “THE CERTIFICATES – Purposes of the Certificates” herein.)
Amounts and Maturities	The Certificates are stated to mature on March 1 in the years and in the amounts evidenced in the table appearing on the inside cover page of this Official Statement.
Interest Payment Dates	Interest on the Certificates is payable on March 1 and September 1 of each year, commencing March 1, 2013, until stated maturity or prior redemption thereof.
Authority for Issuance	The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, including particularly the Certificate of Obligation Act of 1971, Chapter 271, Subchapter C, as amended, Texas Local Government Code, Chapter 22, as amended, Texas Transportation Code, Chapter 1371, as amended, Texas Government Code (“Chapter 1371”), Chapter 1503, as amended, Texas Government Code, the City’s Home Rule Charter (the “Charter”), and an ordinance adopted by the City Council of the City (the “City Council”) on July 31, 2012 (the “Ordinance”). In the Ordinance, as permitted by the provisions of Chapter 1371, the City Council delegated the authority to certain City officials to approve the final pricing structure and certain other matters relating to the Certificates, which final sales terms will be evidenced in an “Approval Certificate” relating to the Certificates. (See “THE CERTIFICATES – Authority for Issuance” herein.)

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\*Preliminary, subject to change.

Redemption	The Certificates stated to mature on and after March 1, 20___, are subject to redemption, at the option of the City, in whole or in part, on March 1, 20___ and any date thereafter, at par plus accrued interest to the date fixed for redemption. In addition, any Term Certificates (defined herein) will be subject to mandatory sinking fund redemption. The years of maturity of the Certificates called for redemption shall be selected by the City. If less than all of the Certificates are redeemed within a stated maturity at any time, the Certificates to be redeemed shall be selected by the Paying Agent/Registrar for the Certificates, at random and by lot within any stated maturity.
Paying Agent/Registrar	The initial paying agent/registrar for the Certificates is _____, _____, Texas. The City intends to use the Book-Entry-Only System of The Depository Trust Company, New York, New York. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)
Security for and Sources of Payment	Principal of and interest on the Certificates will be payable from and secured by the receipts from an annual ad valorem tax levied on all taxable property within the City, within the limits prescribed by law. Solely to comply with Texas law allowing the Certificates to be sold for cash, the Certificates are additionally secured by and payable from a lien on and pledge of the Pledged Revenues (anticipated to be in the amount of \$1,000) derived from the operation of the City's Airport System, such lien and pledge, however, being subordinate and inferior to the lien on and pledge of the Net Revenues which are pledged to the payment of any Prior Lien Bonds, Junior Lien Bonds, or Subordinate Lien Obligations hereinafter issued by the City. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (as described and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues of the City's Airport System (as described and defined in the Ordinance) in the manner provided in the City ordinance authorizing the issuance of the Limited Pledge Obligations. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations, while the Certificates are outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise. (See "THE CERTIFICATES – Security and Source of Payment" and "EFFECT OF THE TAX RATE LIMITATION" herein.)
Ratings	The City has made applications for contract ratings on the Certificates to Fitch Ratings ("Fitch"), Moody's Investors Service, Inc. ("Moody's"), and Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business ("S&P").
Future Debt Issues	Except for possible refundings of outstanding indebtedness for savings, the City does not anticipate the issuance of any additional limited tax indebtedness within the current calendar year.
Payment Record	The City has not defaulted on the payment of its bonded indebtedness in over 73 years.
Delivery	When issued, anticipated to occur on or about August 28, 2012.

**SELECTED FINANCIAL AND TAX DATA**

2011 Net Taxable Assessed Valuation (As of August 1, 2011) (100% of Market Value)	\$ 14,085,804,898
Total Tax Supported Debt Outstanding <sup>(1)</sup>	_____
Less: Self Supporting Debt	(_____)
Applicable Interest and Sinking Fund	_____
NET DEBT	_____
Ratio Net Debt to 2011 Net Taxable Assessed Valuation	2.05%
Net Debt Per Capita (2011 Population Estimate – 307,728)	\$937
Average Current Tax Collections Past Five Years	96.73%
Average Total Tax Collections Past Five Years	99.23%

<sup>(1)</sup> Adjusted to include the Certificates; preliminary, subject to change. See Page A-1 for more information.

*[The remainder of this page intentionally left blank.]*



# CITY OF CORPUS CHRISTI, TEXAS

**\$5,970,000\***  
**COMBINATION TAX AND SURPLUS AIRPORT REVENUE**  
**CERTIFICATES OF OBLIGATION, SERIES 2012 (AMT)**

## INTRODUCTION

This Official Statement of the City of Corpus Christi, Texas (the “City”, the “Issuer”, or “Corpus Christi”) is provided to furnish information in connection with the sale of the \$5,970,000\* City of Corpus Christi, Texas Combination Tax and Surplus Airport Revenue Certificates of Obligation, Series 2012 (AMT) (the “Certificates”).

Capitalized terms used in this Official Statement have the same meanings assigned to such term in the Ordinance (defined herein), except as otherwise indicated herein. This Official Statement contains a description of the Certificates and certain other information about the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City at 1201 Leopard, Corpus Christi, Texas 78401 and, during the offering period, from the City’s Financial Advisor, Mark Seal, M.E. Allison & Co., Inc. 950 East Basse Road, Second Floor, San Antonio, Texas 78209, Telephone (210) 930-4000, or from Constance Sanchez, Director of Financial Services, City of Corpus Christi, 1201 Leopard, Corpus Christi, Texas 78401, telephone (361) 826-3227, upon request by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

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

## THE CERTIFICATES

### **Purposes of the Certificates**

The Certificates are being issued to provide funds (1) to make permanent public improvements within the City, including improvements to the City being, specifically, the construction, acquisition, purchase, equipment, renovation, enlargement, and improvement of the City’s airport facilities, and (2) to pay the costs of issuance of the Certificates.

### **Authority for Issuance**

The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, including particularly the Certificate of Obligation Act of 1971, Chapter 271, Subchapter C, as amended, Texas Local Government Code, Chapter 22, as amended, Texas Transportation Code, Chapter 1371, as amended, Texas Government Code (“Chapter 1371”), Chapter 1503, as amended, Texas Government Code, the City’s Home Rule Charter (the “Charter”), and an ordinance adopted by the City Council of the City (the “City Council”) on July 31, 2012 (the “Ordinance”). In the Ordinance, as permitted by the provisions of Chapter 1371, the City Council delegated the authority to certain City officials to approve the final pricing structure and certain other matters relating to the Certificates, which final sales terms will be evidenced in an “Approval Certificate” relating to the Certificates.

### **Security and Source of Payment**

*Ad Valorem Tax Pledge.* The Certificates are general obligations of the City, payable from its collection of an ad valorem tax levied, within the legal limitations imposed by law, upon all taxable property located in the City. (See “EFFECT OF THE TAX RATE LIMITATION” herein and “FINANCIAL INFORMATION – AD VALOREM TAXES” attached hereto as Appendix A).

*Limited Revenue Pledge Benefiting the Certificates.* Solely to comply with Texas law allowing the Certificates to be sold for cash, the Certificates are additionally secured by and payable from a lien on and pledge of the Pledged Revenues (anticipated to be in the amount of \$1,000) derived from the operation of the City’s Airport System, such

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\*Preliminary, subject to change.

lien and pledge, however, being subordinate and inferior to the lien on and pledge of the Net Revenues which are pledged to the payment of any Prior Lien Bonds, Junior Lien Bonds, or Subordinate Lien Obligations hereinafter issued by the City. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (as described and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues of the City's Airport System (as described and defined in the Ordinance) in the manner provided in the City ordinance authorizing the issuance of the Limited Pledge Obligations. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations, while the Certificates are outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise.

### **General Characteristics of the Certificates**

The Certificates are dated August 1, 2012 and are issued in principal denominations of \$5,000 or any integral multiple thereof. The Certificates bear interest from such date at the stated interest rates indicated on the inside cover page hereof. Interest on the Certificates will be calculated on the basis of a 360-day year of twelve 30-day months, and will be payable on March 1, 2013 and each September 1 and March 1 thereafter, until the earlier of maturity or redemption.

The City intends to utilize the Book-Entry-Only System of The Depository Trust Company New York, New York ("DTC"), but reserves the right on its behalf or behalf of DTC to discontinue such system. Principal of the Certificates will be payable upon presentation by the paying agent/registrar, initially \_\_\_\_\_, \_\_\_\_\_, Texas (the "Paying Agent/Registrar"), through its offices located in \_\_\_\_\_, Texas (the "Designated Trust Office"), to Cede & Co., as nominee of DTC. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer. DTC will be responsible for distributing the principal and interest payments to the participating members of DTC and the participating members will be responsible for distributing the payment of the owners of beneficial interest in the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" herein.) So long as the Certificates are in Book-Entry-Only form, and DTC is the securities depository therefor, Cede & Co., as nominee of DTC, will be the Registered Owner (defined herein) of the Certificates and references herein to the holders of Certificates or Registered Owners shall mean Cede & Co. and not the beneficial owners of the Certificates.

Interest on the Certificates will be payable by check, dated as of the interest payment date and mailed by the Paying Agent/Registrar to registered owners of record (the "Registered Owner" or the "Owner") as of the Record Date (defined herein), or, by such other customary banking arrangements, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, a Registered Owner. If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, legal holiday or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

### **Redemption**

The City has reserved the right, at its option, to redeem the Certificatess having stated maturities on and after March 1, 20\_\_, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 20\_\_, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. In addition, any consecutive maturities of Certificates grouped into one or more "term" Certificates (the "Term Certificates") will be subject to mandatory sinking fund redemption.

The respective years of maturity of the Certificates called for redemption shall be selected by the City. If less than all of the Certificates are redeemed within a stated maturity at any time, the Certificates to be redeemed shall be selected by the Paying Agent/Registrar at random and by lot or other customary method in multiples of \$5,000 within any stated maturity.

## **Notice of Redemption**

Not less than 30 days prior to a redemption date for the Certificates, the City shall cause a notice of redemption to be sent by United States mail, first-class, postage prepaid, to each Registered Owner of any Certificate to be redeemed, in whole or in part, at the address of the Registered Owner appearing on the registration books relating to the particular series of Certificates kept by the Paying Agent/Registrar (the "Security Register") at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE REGISTERED OWNERS OF CERTIFICATES FAILED TO RECEIVE SUCH NOTICE.

All notices of redemption shall (i) specify the date of redemption for the Certificates, (ii) identify the Certificates to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state the Certificates, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified, and the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Certificates, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the Registered Owner. If an Certificate is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as provided in the Ordinance, such Certificate (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and on the redemption date designated in such notice, interest on said Certificate (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue and such Certificate shall not be deemed to be Outstanding.

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

## **Defeasance**

The Ordinance provides for the defeasance of the Certificates when payment of the principal of and premium, if any, on such Certificates, 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 in an amount sufficient to make such payment and/or (2) Defeasance Securities (hereinafter defined) certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and to bear interest at such rates as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom (likewise to be held in trust and committed, except as hereinafter provided), be sufficient to make such payment; provided however, that no certification by an independent accounting firm of the sufficiency of deposits shall be required in connection with a gross defeasance of the Certificates. The Ordinance provides that "Defeasance Securities" means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (iii) noncallable obligations of a state or an agency or a

county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, and (iv) any additional securities and obligations hereafter authorized by State law as eligible for use to accomplish the discharge of obligations such as the Certificates. There is no assurance that the ratings for United States Treasury securities acquired to defease any Certificates, or those for any other Defeasance Securities, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible Defeasance Securities (such list consisting of those securities identified in clauses (i) through (iii) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Certificates (“Defeasance Proceeds”), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible Defeasance Securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Certificates, Registered Owners of Certificates are deemed to have consented to the use of Defeasance Proceeds to purchase such other Defeasance Securities, notwithstanding the fact that such Defeasance Securities may not be of the same investment quality as those currently identified under State law as permissible Defeasance Securities.

Upon such deposit as described above, such Certificates will no longer be regarded to be outstanding or unpaid for purposes of applying any limitation or indebtedness. After firm banking and financial arrangements for the discharge and final payment of the Certificates have been made as described above, all rights of the City to initiate proceedings to call the Certificates for redemption or take any other action amending the terms of the Certificates are extinguished; provided, however, that the City has reserved the option, to be exercised at the time of the defeasance of the Certificates, to call for redemption at an earlier date those Certificates which have been defeased to their maturity date, if the City (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption, (ii) gives notice of the reservation of that right to the Owners of the Certificates immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

The principal of the Certificates will be paid to the Registered Owner at stated maturity or prior redemption upon presentation to the Paying Agent/Registrar, which initially is \_\_\_\_\_, \_\_\_\_\_, Texas, at its Designated Trust Office. Interest on the Certificates will be paid to Registered Owners shown on the Security Registrar on the Record Date, and such interest will be paid by check sent by United States mail, first-class postage prepaid, to the address of such Registered Owner appearing on the Security Register or by such other customary banking arrangements acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the Registered Owner.

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

The City reserves the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar’s records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the City shall be a bank, a trust company, financial institution, or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Certificates. Upon a change in the Paying Agent/Registrar for the Certificates, the City shall promptly cause a written notice thereof to be sent to each Registered Owner of the Certificates by United States mail, first-class postage prepaid, which notice shall give the address of the new Paying Agent/Registrar.

*[The remainder of this page intentionally left blank.]*

**SOURCES AND USES OF FUNDS**

The proceeds from the sale of the Certificates will be applied as follows:

<u>Sources of Funds</u>	
Principal Amount of Certificates	\$
Net Reoffering Premium/(Discount)	
Accrued Interest	
Total Sources of Funds	\$
 <u>Uses of Funds</u>	
Deposit to the Construction Fund	\$
Deposit to Certificate Fund	
Issuance Expenses	
Underwriters' Discount	
Total Uses of Funds	\$

**DEFAULTS AND REMEDIES**

If the City defaults in the payment of principal of, interest on, or redemption price of the Certificates when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the Registered Owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Certificates, if there is no other available remedy at law to compel performance of the Certificates or Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus, controlled by equitable principles, rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the Registered Owners of Certificates upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, which pertains to the issuance of public securities by issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing the issuance of the Certificates. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Certificates (as further described under the caption "THE CERTIFICATES – Authority for Issuance"), the City has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages outside of Chapter 1371, Owners of Certificates may not be able to bring such a suit against the City for breach of the Certificates or the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the Registered Owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce 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 Certificates are qualified with respect to the customary rights of debtors relative to their creditors and principles of equity which permit the exercise of judicial discretion.

## **REGISTRATION, TRANSFER AND EXCHANGE**

### **Transfers and Exchanges**

So long as any Certificates remain outstanding, the Paying Agent/Registrar shall keep the Security Register at the Designated Trust Office in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of the Certificates in accordance with the terms of the Ordinance.

Each Certificate shall be transferable only upon the presentation and surrender thereof at the Designated Trust Office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Owner or his authorized representative in a form satisfactory to the Paying Agent/Registrar. Upon due presentation and surrender of a Certificate for transfer, the Paying Agent/Registrar is required to authenticate and deliver in exchange therefor, under such reasonable regulations as the Paying Agent/Registrar may prescribe, a new Certificate or Certificates, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity, in the principal amount of \$5,000 or any integral multiple thereof, and bearing interest at the same rate as the Certificate or Certificates so presented and surrendered.

All Certificates shall be exchangeable upon the presentation and surrender thereof at the Designated Trust Office of the Paying Agent/Registrar for a Certificate or Certificates of the same maturity and interest rate and in any authorized denomination, in such aggregate principal amount as discussed above equal to the unpaid principal amount of the Certificate delivered in accordance with the Ordinance and shall be entitled to the benefits and security of the Ordinance to the same extent as the Certificate or Certificates in lieu of which such Certificate is delivered.

The Paying Agent/Registrar may require the Owner of any Certificate to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any reasonable standard or customary fee or charge of the Paying Agent/Registrar for a conversion or exchange shall be paid by the one requesting such conversion or exchange, except that the City shall pay such fee or charge in the case of the conversion or exchange of an assigned and transferred Bond.

### **Future Registration**

In the event the Book-Entry-Only System should be discontinued, the Certificates may be transferred, exchanged and assigned on the Security Register, only upon presentation and surrender thereof to the Paying Agent/Registrar and such transfer or exchange of the Certificates shall be without expense or service charge to the Owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Certificate may be assigned by the execution of an assignment form on the Certificate or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Certificate or Certificates will be delivered by the Paying Agent/Registrar in lieu of the Certificates being transferred or exchanged at the Designated Trust Office of the Paying Agent/Registrar, or sent by United States mail, first-class postage prepaid, to the new Registered Owner or his assignee. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the contracting party or assignee of the Owner in not more than three (3) business days after the receipt of the Certificates to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the Owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one maturity or any integral multiple thereof and for a like aggregate principal amount of the Certificate or Certificates 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 Certificates.

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

The record date (“Record Date”) for determining the party to whom interest on a Certificate is payable on any interest payment date is the fifteenth day of the preceding month, as specified in the Ordinance.

In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment (a “Special Record Date”) will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be fifteen 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 appearing on the Security Register at the close of business on the last business day next preceding the date of mailing of such notice.

### **Limitation on Transfer of Certificates**

Neither the City nor the Paying Agent/Registrar shall be required (1) to make any transfer or exchange during a period beginning at the opening of business 30 days before the day of the first mailing of a notice of redemption of Certificates and ending at the close of business on the day of such mailing, or (2) to transfer or exchange any Certificates so selected for redemption when such redemption is scheduled to occur within 30 calendar days; provided however, that such limitation of transfer is not applicable to an exchange by the Registered Owner of the uncalled balance of a Certificate.

### **Replacement Certificates**

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

### **BOOK-ENTRY-ONLY SYSTEM**

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

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

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

### **General**

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues,

corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to Direct and Indirect Participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

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

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

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

Redemption proceeds and principal and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect 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 Direct and Indirect 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 redemption proceeds and principal and interest on the Certificates to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying



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

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, physical Certificates are required to be printed and delivered. The City may decide to discontinue use of the Book-Entry-Only System through DTC (or a successor securities depository). In that event, physical Certificates will be printed and delivered.

The information in this section concerning DTC and DTC's Book-Entry-Only System has been obtained from DTC, but the City takes no responsibility for the accuracy thereof.

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

In reading this Official Statement it should be understood that while the Certificates 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 Direct or Indirect Participant acquires an interest in the Certificates, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, payment or notices that are to be given to Registered Owners under the Ordinance will be given only to DTC.

#### **AUTHORIZED BUT UNISSUED AD VALOREM TAX SUPPORTED BONDS**

The City has no voter-authorized but unissued limited ad valorem tax-supported bonds.

In addition to voter-authorized ad valorem tax supported bonds, the City is authorized under State law to incur other debt obligations payable from its collection of ad valorem taxes, including certificates of obligation, tax notes, public property finance contractual obligations, and certain types of capital leases.

#### **EFFECT OF THE TAX RATE LIMITATION**

As discussed more specifically elsewhere in this Official Statement, two amendments to the Charter affect management of the City's financial affairs. In 1980, an election was held at which an amendment to the Charter established a 68 cent per \$100 tax rate for all purposes (the City would otherwise be permitted by State law to have a tax rate of up to \$2.50 per \$100 of assessed valuation). In 1993, an election was held at which the citizens of the City voted to amend the Charter to provide for the tax rate to increase up to the State limit for voter approved debt authorized after April 4, 1993. Since that time, the citizens of the City have approved the issuance of general obligation bonds to finance various projects at elections held on November 7, 2000, November 2, 2004, and November 4, 2008. No bonds issued in reliance upon this voted authorization, including those general obligation bonds described under "AUTHORIZED BUT UNISSUED AD VALOREM TAX SUPPORTED BONDS", which includes bonds issued to refund those general obligation bonds, are subject to the 68 cent tax rate limit. The remaining outstanding tax supported debt, and any currently outstanding certificates of obligation (including, upon issuance, the Certificates), are subject to the 68 cent tax rate limit, which is also applicable to the City's operation and maintenance expenditures. **As stated above the Certificates are subject to the 68 cent tax rate limit.** (See "THE CERTIFICATES – Security and Source of Payment" herein.)

The City has, by election under the Texas Tax Code, adopted a \$50,000 homestead exemption for disabled taxpayers and for taxpayers over the age of 65. Further, on November 2, 2004, voters of the City approved freezing the ad valorem taxes for citizens 65 or older, or disabled, and their spouses on homesteads owned thereby. The effect of the imposition of the tax freeze has ranged from an ad valorem levy loss of approximately \$400,000 in the initial year of implementation of the tax freeze to over \$1,500,000 in fiscal year 2007-2008, but appears to be leveling off somewhat. The City had foreseen and budgeted these ad valorem levy losses each year and believes the existing ad valorem tax rate is sufficient to maintain the current level of operations and should not affect the ability of the City to finance future capital improvements through the issuance of debt secured in whole or in part by a pledge of ad valorem taxes.

These provisions affect the City's budgeting and capital improvement program planning functions. In part, as a response to the tax rate limit, the City has maintained its tax rate within a range of \$0.590 to \$0.644 per \$100 in

valuation over the last ten fiscal years. The current tax rate is \$0.564 per \$100 in valuation. The ability to continue to issue the debt necessary to add additional City improvements and to provide other current services within the tax rate limit will depend in part on the growth in the City's ad valorem and sales tax bases over the coming years as well as the ability of City management to continue to provide efficient City services.

## **DEBT INFORMATION**

### **Payment Record**

The City has not defaulted in the payment of the principal of, or interest on, its tax debt obligations within the last 73 years, nor has the City issued any refunding securities for the purpose of preventing a default in the payment of the principal of, or interest on, its tax debt obligations within this period.

### **Authority for Issuance of Debt; Limitations**

The City is authorized to issue ad valorem tax supported general obligation bonds. A majority vote of the qualified voters is ordinarily required to authorize the issuance of ad valorem tax supported bonds for general improvements. Notes, including bond anticipation notes and commercial paper notes, also may be authorized by a majority vote of the qualified voters in connection with the approval of ad valorem tax supported general improvement bonds.

The City is also empowered to issue notes, personal property finance contractual obligations, and certificates of obligation payable from ad valorem taxes for a variety of purposes generally without conducting an election. Such notes, personal property finance contractual obligations, and certificates of obligation may be refunded by tax supported bonds. In addition, the City may issue certificates of obligation with a pledge of both taxes and revenues provided the City otherwise has the right to pledge the revenues involved.

The City is also authorized to issue revenue bonds for certain purposes. The authorized purposes include the financing of the water system, wastewater disposal system, gas system, solid waste system, transportation system, civic center, airport and parks. Revenue bond indebtedness is not considered in determining the legal debt margin for ad valorem tax supported bonds.

The City anticipates the issuance of multiple series of obligations (both revenue and limited ad valorem tax-supported indebtedness), within the legal limits imposed by law or contract (as applicable), over the course of the next 12 months.

## **INVESTMENT POLICY**

Available City funds are invested as authorized by Texas law and in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change.

### **Legal Investments**

Under State law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies or instrumentalities, (2) direct obligations of the State or its agencies and instrumentalities, (3) collateralized mortgage bonds 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 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 and share certificates meeting the requirements of the Public Funds Investment Act (Chapter 2256 of the Texas Government Code, as amended) (the "PFIA") (i) that are issued by an institution that has its main office or a branch office in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (5) or in any other manner and amount provided by law for City deposits, or (ii) that are invested by the City through a depository institution that has its main office or a branch office in the State of Texas and otherwise meet the requirements of the PFIA, (7) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the

City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State primary government securities dealer or a financial institution doing business in the State, (8) bankers' acceptance with a 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, (9) 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 United States or State bank, (10) no-load money market mutual funds registered with and regulated by the SEC that provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that has 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, (11) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, invests exclusively in bonds described in the preceding clauses and clause (13), are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent, and conform to the requirements relating to the eligibility of investment pools to receive and invest funds, (12) obligations issued, assumed, or guaranteed by the State of Israel, and (13) guaranteed investment contracts secured by obligations of the United States of America or its agencies and instrumentalities, other than the prohibited obligations described in the next succeeding paragraph.

Entities such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (5) and clause (13) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (5) and clause (13) above, clauses (9) through (11) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to such investing entity or a third party designated such investing entity; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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 in accordance with written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pool 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 must submit to the City Council 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) Texas 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 relative 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 investments of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (7) 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.

City policies require investments in accordance with applicable state law. All investments which are authorized by State statutes, with the exception of bankers' acceptances, commercial paper, collateralized mortgage obligations, reverse repurchase agreements, no-load money market mutual funds, no-load mutual funds, and bonds issued, assumed or guaranteed by the State of Israel, are acceptable for investment purposes under the City's Statement of Investment Policy. The City generally invests in obligations of the United States or its agencies and instrumentalities.

Under Texas law, the City may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance or resolution. The City has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such services.

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**Current Investments\***

As of April 30, 2012, the following percentages by investment type applied to the City's investable funds, which had an aggregate par value of \$354,783,886.72, a market value of \$354,870,256.47 and a book value of \$354,783,886.72.

**City Portfolio**

Par Value:		
Money Market		\$ 3,323,076.19
Local Government Investment Pool		154,710,810.53
U. S. Agencies		\$ 196,750,000.00
	Total	<u>\$ 354,783,886.72</u>
Market Value		354,870,256.47
Book Value		354,783,886.72
Market to Book Ratio		100.02%
Weighted Average Maturity		236 Days
Portfolio by Account Type (Par Value)		
Money Market		0.94%
Local Government Investment Pool		43.61%
U.S. Agencies		55.46%
	Total	<u>100.00%</u>

\* Unaudited

As of such date, the market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 100% of book value. No funds of the City are invested in derivative securities, i.e, securities whose rate of return is determined by reference to some other instrument, index, or commodity.

**PAYROLL STATISTICS**

Fiscal Year	Salaries(\$)	Social Security and Medicare(\$)	Texas Municipal Ret. System(\$)	Fireman's Relief and Retirement(\$)	Total Paid by City as Employer(\$)	Number of Employees Last Payday of Fiscal Year <sup>(1)</sup>
2001-02	105,312,317	6,418,618	9,826,228	2,300,476	123,857,639	3,264
2002-03	112,071,665	6,818,824	10,241,750	2,423,671	131,555,910	3,264
2003-04	121,245,107	7,370,874	11,386,987	2,673,855	143,176,822	3,317
2004-05	120,616,280	7,350,960	12,827,988	2,482,092	143,277,320	3,126
2005-06	124,601,361	5,903,267	13,853,273	2,795,774	147,153,675	3,183
2006-07	127,318,989	7,603,602	14,372,192	3,040,260	152,335,043	3,217
2007-08	133,145,260	7,991,390	15,603,377	3,575,262	160,315,289	3,309
2008-09	140,069,626	8,350,623	16,549,804	3,997,364	168,967,417	3,406
2009-10	142,607,262	7,714,798	18,330,551	4,440,572	173,093,184	3,236
2010-11	147,878,682	8,435,205	16,832,574	5,158,128	178,354,589	3,091

<sup>(1)</sup> This includes full time and summer employees.

## Employee Pension Plan and Benefits

The City's employees participate in the Texas Municipal Retirement System. This plan, the contributions made to this plan, and the City's unfunded pension fund liability are further described in Note 9 in "CERTAIN AUDITED FINANCIAL STATEMENTS" attached hereto as Appendix B.

GASB Statement No. 45: *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* ("OPEB"), establishes accounting standards for postretirement benefits. The standard does not require funding of OPEB expense, but any difference between the annual required contribution ("ARC") and the amount funded during the year is required to be recorded in the employer's financial statement as an increase (or decrease) in the net OPEB obligation. The effective date for implementation of GASB 45 by the City of Corpus Christi was August 1, 2007. The City is required to obtain an actuarial valuation at least once every two years in accordance with GASB 45 standards. The City latest valuation is dated as of August 1, 2009, and discloses the following:

### Plan Description and Funding Policy

Employees who retire from the City, and eligible dependents and survivors, are eligible to continue to participate in the City's health insurance programs at the "blended" employee group rate which is determined annually by the City and approved by the City Council. Retirees have 31 days to elect to enroll in the City's self-funded, single-employer health insurance plan (Citicare, Citicare Public Safety, and Citicare-Fire) in which they were participating at the time of retirement unless otherwise stated in a plan document or collective bargaining agreement. **In an effort to reduce the City's liability, as of March 2010, civilian retirees that are Medicare-eligible have been enrolled in a separate Medicare insurance plan and are no longer covered by the City's group insurance plan.** As of July 31, 2011, a total of 464 eligible retirees and dependents were participating in the City's group health program detailed as follows:

Citicare	151
Citicare Premium	28
Citicare Public Safety	161
Citicare Fire	116
Pending Election	8
Total	<u>464</u>

The City provides no funding for any portion of the premiums after retirement. However, the City recognizes that there is an "implicit subsidy" arising as a result of the blended rate premium since retiree health care costs, on average, are higher than active employee healthcare costs. The plan is not accounted for as a trust fund as an irrevocable trust has not been established to fund the plan. The plan does not issue a separate financial report.

### Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The City's annual OPEB cost for each plan for the current year is as follows:

	Citicare (\$)	Citicare Public Safety (\$)	Citicare Fire (\$)	Total (\$)
Annual required contribution	1,432,835	1,023,807	1,075,712	3,532,354
Interest on net OPEB obligation	288,602	121,766	151,444	561,812
ARC adjustment	(261,557)	(110,355)	(137,252)	(509,164)
Annual OPEB cost	1,459,880	1,035,218	1,089,904	3,585,002
Contributions made (pay-as-you-go basis)	742,216	487,161	463,682	1,693,059
Increase in net OPEB obligation	717,664	548,057	626,222	1,891,943
Net OPEB obligation - beginning of year	6,413,370	2,705,914	3,365,414	12,484,698
Net OPEB obligation - end of year	7,131,034	3,253,971	3,991,636	14,376,641

Three year trend information is as follows:

	<b>Citicare</b>	<b>Citicare Public Safety</b>	<b>Citicare Fire</b>	<b>Total (Memorandum Only)</b>
City's ARC				
2009	\$3,427,045	\$1,660,031	\$2,050,229	\$7,137,305
2010	\$1,981,704	\$996,754	\$1,035,471	\$4,013,929
2011	\$1,459,880	\$1,035,218	\$1,089,904	\$3,585,002
Percentage of ARC contributed				
2009	22.5%	33.4%	30.4%	N/A
2010	35.5%	44.5%	39.3%	N/A
2011	50.8%	47.1%	42.5%	N/A
Net OPEB Obligation				
2009	\$5,136,029	\$2,152,317	\$2,737,307	\$10,025,653
2010	\$6,413,370	\$2,705,914	\$3,365,414	\$12,484,698
2011	\$7,131,034	\$3,253,971	\$3,991,636	\$14,376,641

### Funded Status and Funding Progress

The funded status of the plan as of the last valuation date of July 31, 2010, was as follows:

	<b>Citicare</b>	<b>Citicare Public Safety</b>	<b>Citicare Fire</b>	<b>Total</b>
Actuarial accrued liability	\$12,524,728	\$13,584,349	\$13,537,686	\$39,646,763
Actuarial value of plan assets	--	--	--	--
Unfunded actuarial accrued liability	\$12,524,728	\$13,584,349	\$13,537,686	\$39,646,763
Funded ratio	0%	0%	0%	0%
Covered payroll	\$75,985,799	\$33,462,005	\$24,597,155	\$134,044,958
Unfunded actuarial accrued liability as a percentage of covered payroll	16.5%	40.6%	55.0%	29.6%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### Changes Since 2007

The total GASB 45 actuarial accrued liability for Citicare, Public Safety and Fire decreased from approximately \$68 million as of August 1, 2007 to approximately \$40 million as of August 1, 2009. The majority of the decrease is attributable to revisions to the actuarial assumptions in order to more accurately reflect the anticipated experience to the plan in the future. These included changes to the mortality, retirement, participation, persistency, claims cost and health care cost trend rate assumptions. The majority of this decrease is attributable to decreasing the participation assumption.

### Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan and include the type of benefits in force at the valuation date and the pattern of sharing benefits between the City and the plan members at that point. Actuarial calculations reflect a long term perspective and employ methods and assumptions that are designed to reduce the short term

volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions used for this valuation are as follows:

Measurement Date	August 1, 2009
Actual Cost Method	Projected Unit Credit
Amortization Period	30 years, Open
Amortization Method	Level Percent of Payroll
Discount rate	4.50%
CPI	2.50%
Healthcare Cost Trend Rate	10% initial rate, 4.5% ultimate rate, 19 year grade in period
Payroll Growth Rate	3% annually

### **Collective Bargaining Agreements**

Under State law, municipal firefighters and police officers may form collective bargaining groups which may negotiate employment contracts on behalf of members of such groups. However, State law forbids such groups from participating in strikes or other work stoppages. The City's firemen and police are organized in collective bargaining groups and currently are working under a negotiated employment agreement with the City. No other City employees are similarly organized for employment term negotiations.

## **ANNEXATION PROGRAM**

### **Background**

The City has continued to expand its jurisdiction, and thus increase its obligation to provide services and, correspondingly its tax base, by annexing selected adjacent areas. The City may annex additional territory adjoining or lying adjacent to the City by ordinance.

The total area of the City is approximately 498 square miles, of which approximately 161 square miles is land area and 337 square miles water area. The areas covered by water require no normal City Services, but do produce considerable revenues from oil and gas properties located therein and allow the City to enforce ordinances regarding uses in the areas. The City has had numerous annexations since its beginning. Significant annexations occurred in 1950 when 92 square miles of water area in Corpus Christi and Nueces Bay were annexed, in 1962 when 48 square miles of land west and south of the City were annexed, in 1966 when 31 square miles of water area in Corpus Christi Bay were annexed and in 1970 when 63 square miles of water area in Corpus Christi Bay and Laguna Madre were annexed. However, four oil companies which owned leases included in the 1970 annexation of bay water areas contended the annexation was not legal. The matter ended up in court and was settled in favor of the City. In December, 1972 an election to re-affirm the annexation of November 1970 was held and carried. On November 18, 1981, the City annexed approximately 3,171 acres (4.95 square miles) of land in addition to fringe area development made up of commercial, industrial and residential subdivisions. On August 9, 1986 an election was defeated to annex more than 60 square miles of Padre and Mustang Islands. The City has already annexed the developed areas of Padre Island bounded by Laguna Madre, Packery Channel, the Gulf of Mexico and the Southern boundary of Nueces County. Through a referendum on April 11, 1989, the City annexed approximately 2,527 acres (3.95 square miles) of land. Changes in the City's Charter have simplified the method by which a municipality may annex land. Under the Charter revisions: "The City shall have the power by ordinance to fix the boundary limits of the city and to provide for the alteration and extension of the boundary limits." From 1990 thru 1995, the City annexed 9,988 acres (approximately 4.95 square miles) of land primarily located south of SPID and east of Staples Street. From 1996 thru 1998, the amount of land annexed by the City was minimal as only 32 acres or .05 square miles of land area was annexed. In 1999, the City initiated annexations for lands adjacent to the northwest portion of the City, and on Mustang and Padre Islands located along the eastern edge of the City. On December 21, 1999, 4,852 acres or 7.58 square miles was annexed into the City. As part of a major annexation program in 2001, the City annexed a total of 15,786 acres (24.7 square miles) effective December 31, 2001. On April 17, 2002 the City annexed 678.39



acres (1.06 square miles) of land. Several existing major resorts and condominiums on Mustang/North Padre Islands were included as part of the areas annexed, resulting in a significant increase in hotel tax revenue collected by the City.

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Source: City Geographic Information System. Any differences in acreage between the historically adopting annexation ordinance and the annexation figures provided are attributed to the modern methods used by the City's Geographic Information System. These methods include gps (global satellite positioning system), aerial photography, property records, etc.

## LITIGATION AND REGULATION

### City Claims and Litigation

The City is a defendant in various tort claims and lawsuits involving general liability, automobile liability, and various contractual matters. The status of such litigation ranges from early discovery stage to various levels of appeal of judgments both for and against the City. The City intends to defend vigorously against the lawsuits; including the pursuit of all appeals; however, no prediction can be made as of the date hereof, with respect to the liability of the City for such claims or the outcome of such suits.

In the opinion of the City Attorney, it is improbable that the lawsuits now outstanding against the City could become final in a timely manner so as to have a material adverse financial impact upon the City.

*Ex Parte the City of Corpus Christi, Texas.* The case involves validation of the 2008 Bond Election, the resulting issuance of public securities pursuant to that election, and the resulting expenditures of money to execute the projects pursuant to that election under Chapter 1205 of the Texas Government Code. The parties severed the expenditure of bond funds related to the project involving the extension of Aquarius Street into a separate case. The trial court found for the City, granted the relief sought on the severed matters before the Court, and rendered judgment in favor of the City. The Secretary of the City issued a Certificate of Validated Public Security, in compliance with Section 1205.152, Texas Government Code, confirming that the obligations at issue in the case were validated and confirmed by the judgment entered by the trial court on November 29, 2011, signed by The Honorable Bobby Galvan, 94<sup>th</sup> Judicial District Court, Nueces County, Texas, which perpetually enjoined the commencement of any suit, action, or proceeding involving the validity of the obligations, or the provision made for payment of the principal and interest of such obligations. The City has appealed the trial court's ruling on the separate cause regarding expenditure of bond funds for the Aquarius Street project.

*San Patricio Municipal Water District and South Texas Water Authority vs. City of Corpus Christi, Texas.* The case involves a claim by two of the City's wholesale water customers that they were improperly billed by the City. The City challenged the trial court's jurisdiction to consider this matter. After consideration of this challenge, the trial court dismissed the case. The Court of Appeals subsequently reversed the judgment of the trial court, dismissing the appellants' breach of contract claims for lack of jurisdiction and remanded those claims back to the trial court. The case is presently pending in the original trial court but has not been set for a trial on the merits. The City has begun settlement negotiations with the Plaintiff and intends to vigorously defend against the lawsuit if the settlement negotiations fail.

*City of Ingleside, Texas vs. City of Corpus Christi, Texas.* The City of Ingleside, Texas ("Ingleside") alleges that certain piers, bulkheads, wharves, and other man-made structures (the "Property") originate on and extend from land within Ingleside's jurisdiction and extend into water which is included in the jurisdiction of Ingleside. The Plaintiff challenges the City's authority to assess and collect taxes on the Property and seeks a declaration from the trial court that the Property is within the jurisdiction of Ingleside, rather than that of the City. The property at issue or the value involved in this suit have yet to be determined. The City has filed a response and has begun settlement negotiations with the Plaintiff and intends to vigorously defend against the lawsuit if settlement negotiations fail.

On the date of delivery of the Certificates to the Underwriters, the City will execute and deliver to the Underwriters a certificate to the effect that, except as disclosed herein, no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Certificates or which would affect the provisions made for their payment or security or in any manner question the validity of the Certificates. (See “NO LITIGATION CERTIFICATE” herein.)

### **Environmental Regulations**

The City is subject to the environmental regulations of the State and the United States in the operation of its water, wastewater, storm water and gas systems. These regulations are subject to change, and the City is required to expend substantial funds to meet the requirements of such regulatory authorities.

**Safe Drinking Water Act.** In August 1996, amendments to the Federal Safe Drinking Water Act were signed into law. These amendments require the United States Environmental Protection Agency (“EPA”) to regulate a wide variety of contaminants that may be present in drinking water, including volatile organic chemicals, other synthetic organic chemicals, inorganic chemicals, microbiological contaminants, and radionuclide contaminants. The list of contaminants to be regulated is so lengthy that the amendments require EPA to establish a schedule for developing regulations regarding the contaminants. There are several phases in EPA’s regulatory timetables that are to be undertaken over the next few years. The initial impact of the amendments to the water system has been minimal, as the City has been able to comply with regulations promulgated to date. The full impact is difficult to project at this time, and would be dependent upon what maximum contaminant levels may be set for some future parameters and enhanced surface water treatment rules. Many of these parameters, such as waterborne pathogens, radionuclides and infection by-products contaminants, may require treatment changes that have not as yet been established by the EPA.

Continued changes in rules and regulations will continue to cause process modifications, which will increase the cost of the maintenance and operation of the City’s drinking water treatment and distribution facilities. These modifications and upgrades will require increased capital expenditures, which may be financed by the issuance of additional revenue bonds.

**Nueces Estuary Fresh Water Inflow Requirements.** When the State granted the City and the NRA a right to store and divert State waters in the Choke Canyon Reservoir, it included a special provision in the water rights permit requiring that the Choke Canyon/Lake Corpus Christi Reservoir system be operated so as to provide no less than 151,000 acre-feet per year of fresh water inflow to the Nueces Estuary in order to maintain the ecological health of that estuary. This provision was later incorporated into the Certificate of Adjudication No. 21-3214 for the Choke Canyon Reservoir. In 1990, the State issued the first of a series of orders governing the City’s reservoir system operations in order to satisfy these fresh water inflow requirements. The effect of these orders, combined with the drought of 1982-1984, was to significantly diminish the firm annual yield of the reservoir system. Under the 1992 Interim Order, reservoir system yield was estimated to be approximately 168,000 acre-feet per year. The City eventually negotiated a new operating plan governing the fresh water inflow requirements, and in May 1995, TCEQ approved an Agreed Order that now provides for a firm annual yield of 181,000 acre-feet per year while satisfying the fresh water inflow needs of the Nueces Estuary. Any future increase in fresh water inflow requirements could reduce the amount of water available for sale by the City’s Combined Utility System. The 1995 TCEQ Agreed Order was further refined on April 4, 2001, to allow a more automatic transition from inflow requirements within the 1995 TCEQ Agreed Order.

**Federal and State Regulation of the Wastewater Facilities.** The Federal Clean Water Act and the Texas Water Code regulate the Wastewater System’s operations. All discharges of pollutants into the nation’s navigable waters must comply with the Clean Water Act. The Clean Water Act allows municipal wastewater treatment plants to discharge treated effluent to the extent allowed in permits issued by the EPA pursuant to the National Pollutant Discharge Elimination System program (“NPDES”), a national program established by the Clean Water Act for issuing, revoking, monitoring, and enforcing wastewater discharge permits. The Clean Water Act authorized the EPA to delegate NPDES permit responsibility to state or interstate agencies after certain prerequisites have been met by the relevant agencies. The EPA has delegated its NPDES authority to the TCEQ. The City no longer obtains duplicative wastewater discharge permits from TCEQ and EPA. The Texas Pollution Discharge Elimination System (“TPDES”) permits issued by the TCEQ are the only permits required.

The TCEQ wastewater discharge permits are issued under authority granted by the Texas Water Code, TPDES permits set limits on the type and quantity of wastewater discharge, in accordance with State and Federal laws and regulations, The Clean Water Act requires municipal wastewater treatment plants to meet secondary treatment effluent limitations as defined in EPA regulations. The Clean Water Act also requires that municipal plants meet any effluent limitations established by State or Federal laws or regulations, which are more stringent than secondary treatment. Under the Clean Water Act, states must identify any bodies of water for which more stringent effluent standards are needed to achieve water quality pollutant standards identified by the EPA. The Clean Water Act allows municipalities to apply for extensions of applicable deadlines for secondary or additional treatment.

**Status of Discharge Permits for City’s Wastewater Treatment Plants.** The Greenwood and Broadway wastewater plants are in the process of having their current discharge permit renewed. The Oso permit was renewed on April 29, 2011. The new Oso permit includes an additional ammonia limit, which is not currently included in the existing permit and has a 30-month time limit for compliance. The Greenwood permit renewal is currently under review by the EPA. The EPA is asking TCEQ to include a Whole Effluent Toxicity (“WET”) limit as an additional permit requirements. It is uncertain how long this delay will last, but upon resolution the disinfection criteria will be changing to a more strenuous microorganism (Enterococci). The Broadway permit is currently being held up by a public hearing request submitted to TCEQ during the public comment period. Following the resolution, the permit will be finalized and an amendment will immediately follow to move the existing outfall in accordance with the new plant construction project. Also, the TCEQ has added a new disinfection parameter (Enterococci) in the Oso, Laguna Madre, and Whitecap permits. When the permits are renewed at the Broadway and Greenwood plants, the Enterococci disinfection requirement will also be added. The Allison (permit expiration May, 2014), Whitecap (permit expiration July, 2014), and Laguna Madre (permit expiration April, 2015) wastewater treatment plants have been issued TPDES discharge permits by the TCEQ. An occasional upset may cause permit violations, but generally all six plants are in compliance. (See “LITIGATION AND REGULATION – Environmental Regulations – Potential Penalties for the City’s Wastewater System’s Violations” herein.)

**Potential Penalties for the City’s Wastewater System’s Violations.** The failure by the City to achieve compliance with the Clean Water Act could result in either a private plaintiff or the EPA instituting a civil action for injunctive relief and civil penalties of up to \$27,500 per day. In addition, the EPA has the power to issue administrative orders compelling compliance with its regulations and the applicable permits. The EPA can also bring criminal actions for recovery of penalties of up to \$50,000 per day for willful or negligent violations of permit conditions or discharge without a permit. Violations of permits or administrative orders may result in the disqualification of a municipality for eligibility for federal assistance to finance capital improvements pursuant to the Clean Water Act. Even though the City is operating under TPDES permits, the City may still be liable for penalties from EPA under the Clean Water Act.

Under State law, penalties for violation of State wastewater discharge permits or orders of the TCEQ can be a maximum of \$10,000 per day per violation. The Executive Director of the TCEQ also has authority to levy administrative penalties of up to \$10,000 per day for violation of TCEQ rules, orders or permits. Orders resulting from a civil action could require the imposition of additional user or service charges or the issuance of additional revenue bonds to finance the capital improvements required to ameliorate a condition that may have caused the violation of a TCEQ permit.

The City has experienced sanitary sewer overflows (“SSOs”) at its six wastewater treatment plants. In response, the City of Corpus Christi Wastewater Department has submitted an application to the TCEQ for resolution of these overflows through the State of Texas Sanitary Sewers Overflow Initiative. It provides a structured, voluntary plan for the management and rehabilitation of the collection system which includes programs for line cleaning, closed circuit televising, as well as an increase in smoke testing analysis. This voluntary plan is a potential ten year, \$135 million plan to reduce SSOs within the collection system.

As a result of the unauthorized SSOs, the City filed non-compliance reports with the TCEQ in accordance with the requirements of its discharge permits. These reports were reviewed by the EPA and became the subject of enforcement action thereby for the City’s alleged failure to comply with the Clean Water Act (33 U.S.C. 1251, et seq.) due to the occurrence of the SSOs. The EPA, on September 19 ,2011, entered separate Findings of Violations and Order for Compliance (the “Administrative Orders”) for each of the City’s six wastewater treatment plants, each of which required the City to cease the unauthorized discharges and/or prepare a rehabilitation and repair plan, describing necessary construction projects, to prevent future unauthorized discharges. In compliance with these

Administrative Orders, the City has initiated contact with the EPA, who is in the process of referring the matter to the United States Department of Justice (the "DOJ") for an enforcement action. The City and the EPA/DOJ are in the process of entering into a tolling agreement that precludes the running of any applicable statutes of limitation that might otherwise bar a claim by the EPA/DOJ in anticipation that the parties will engage in settlement negotiations.

Since the date of the Administrative Orders, the City has interacted with the EPA, and in the future anticipates continued interaction and cooperation with the EPA and the DOJ, to address the violations identified in the Administrative Orders. To date, the City has conducted mock audits of its wastewater system and operations in anticipation of similar audits to be required and conducted by the EPA/DOJ. In addition, the City has voluntarily implemented the wastewater collection system management and rehabilitation plan described above through the TCEQ, under which improvements will be made to the City's collection system that are expected to reduce or eliminate SSOs prospectively. Finally, the City anticipates constructing and implementing approximately \$98 million in wastewater system improvements over the next three years, some of which will address wastewater collection system deficiencies that have contributed to past SSOs.

Negotiations between the City and the EPA/DOJ are in their infancy. Accordingly, the City cannot predict the length of such negotiations or the results thereof. Resolution of these matters will depend on the course of action ultimately agreed upon between the City and EPA/DOJ or ordered by a Federal District Court if the parties are unable to settle the matter.

## LEGAL MATTERS

The City will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Certificates are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Certificates, issued in compliance with the provisions of the Ordinance, are valid and legally binding obligations of the City and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Certificates is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. In its capacity as Bond Counsel, Fulbright & Jaworski L.L.P., San Antonio, Texas has reviewed the information under the captions "THE CERTIFICATES", "REGISTRATION, TRANSFER, AND EXCHANGE," "EFFECT OF THE TAX RATE LIMITATION" (the last three sentences of the first paragraph of such section only). "TAX MATTERS", "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS", "CONTINUING DISCLOSURE OF INFORMATION" (except under the subheading "Compliance with Prior Undertakings" as to which no opinion is expressed), and "REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE" in the Official Statement and such firm is of the opinion that the information relating to the Certificates and the Ordinance contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates or which would affect the provisions made for their payment or security, or in any manner questioning the validity of the Certificates will also be furnished. Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel has been engaged by and only represents the City in connection with the issuance of the Certificates. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Certificates are contingent on the sale and delivery of the Certificates. The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on the definitive Certificates in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the City by the City Attorney and for the Underwriters by their counsel, \_\_\_\_\_, \_\_\_\_\_, Texas, whose fee is contingent on the delivery of the Certificates.

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

## **TAX MATTERS**

### **Opinion**

The delivery of the Certificates is subject to the opinion of Fulbright & Jaworski L.L.P., San Antonio, Texas, Bond Counsel, to the effect that interest on Certificates will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Certificates (the "Code") and, except for interest on any Certificates during any period while such Certificate is held by a person who is a "substantial user" of any of the facilities financed or refinanced with the proceeds of the Certificates or by a "related person", as such term is defined in section 147(a) of the Code; however interest on the Certificates will be included in computing the alternative minimum taxable income of the owners thereof which are individuals or corporations. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. Forms of Bond Counsel's opinions appear in Appendix D hereto.

Bond Counsel's opinion will note that interest on the Certificates will be a preference item under section 57 of the Code for purposes of the alternative minimum tax imposed under section 55 of the Code, and accordingly will be included in computing the alternative minimum taxable income of owners of the Certificates which are individuals, trusts, estates and corporations. A corporation's alternative minimum taxable income is also the basis on which the environmental tax imposed by section 59A of the Code will be computed.

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

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

### **Tax Changes**

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

### **Ancillary Tax Consequences**

Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization

investment trust (FASIT), individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

### **Tax Accounting Treatment of Discount Certificates**

The initial public offering price to be paid for certain Certificates may be less than the amount payable on such Certificates at maturity (the “Discount Certificates”). An amount equal to the difference between the initial public offering price of a Discount Certificate (assuming that a substantial amount of the Discount Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Certificates. A portion of such original issue discount, allocable to the holding period of a Discount Certificate by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Certificates. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Certificate and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such accrued interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation’s alternative minimum tax imposed by section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

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

### **Tax Accounting Treatment of Premium Certificates**

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

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

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

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

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Certificates for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Certificates for such purposes. The City has made no review of laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

### **RATINGS**

The City has made applications for contract ratings on the Certificates to Fitch Ratings ("Fitch"), Moody's Investors Service, Inc. ("Moody's"), and Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business ("S&P"). An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that the ratings of the City will continue for any given period of time or that they will not be revised downward or withdrawn entirely if in the judgment of these companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Certificates.

The underlying, unenhanced ratings on the City's currently outstanding limited ad valorem tax-supported indebtedness reflect upgrades received by the City due to the recalibration of municipal credit ratings that both Fitch and Moody's completed in 2010. Moody's released its recalibrated ratings on April 23, 2010 and Fitch released their recalibrated ratings on April 30, 2010. See "CONTINUING DISCLOSURE OF INFORMATION – Compliance with Prior Undertakings" herein.

Due to the ongoing uncertainty regarding the economy and debt of the United States of America, including, without limitation, the general economic conditions in the country and developments arising from the Budget Control Act of 2011, including the deliberations and results thereof of the Joint Select Committee on Deficit Reduction, and other political and economic developments that may affect the financial condition of the United States government, the United States debt limit, and the bond ratings of the United States and its instrumentalities, obligations issued by state and local governments, such as the Certificates, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity, and market value of outstanding debt obligations, including the Certificates.

### **NO-LITIGATION CERTIFICATE**

At the time of delivery of the Certificates, the City will execute and deliver a certificate dated as of the date of delivery to the effect that no litigation has been filed or is then pending to restrain or enjoin the issuance or delivery of the Certificates, or which would affect the provisions made for payment of the principal of and interest on the Certificates or in any manner question the validity of the Certificates.

## **GENERAL INFORMATION**

The descriptions herein do not purport to be complete and all such descriptions or references are qualified in their entirety by reference to the complete form of the Ordinance or other documents or source they summarize. Statements made herein involving estimates or projections, whether or not expressly identified as such, should not be construed to be statements of fact or as representations that such estimates or projections will ever be attained or will approximate actual results. Any summaries or excerpts of constitutional provisions, statutes, ordinances, or other documents do not purport to be complete statements of same and are made subject to all of the provisions thereof. Reference should be made to such original sources in all respects.

For additional information with respect to the financial condition of the City, a copy of the July 31, 2011 Comprehensive Annual Financial Report of the City of Corpus Christi, Texas is available upon written request addressed to the Office of the Director of Financial Services, City of Corpus Christi, Corpus Christi, Texas 78469-9277 or can also be found on the City's website.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Ordinance, the City has made the following agreement for the benefit of the Registered Owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the Municipal Securities Rulemaking Board (the "MSRB"). The information provided to the MSRB will be available to the public free of charge via the Electronic Municipal Market Access ("EMMA") system through an internet website accessible at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Annual Reports**

The City will file certain updated financial information and operating data with EMMA annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in Appendix A to this Official Statement ("Financial Information") under the headings "DEBT PAYABLE FROM TAXES", "GENERAL REVENUES", "GENERAL EXPENSES", "AD VALOREM TAXES", and "THE TAX INCREMENT FINANCING ACT", and in Appendix C. The City will update and provide this information within six months after the end of each fiscal year ending in or after 2012. The City will provide the updated information to the MSRB in an electronic format, which will be available through EMMA to the general public without charge.

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 ("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 financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix C, the Ordinance 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 July 31. Accordingly, it must provide updated information by January 31 in each year following the end of its fiscal year, unless the City changes its fiscal year. If the City changes its fiscal year, it will file with the MSRB.

## **NOTICE OF CERTAIN EVENTS**

The City will file with the MSRB notice of any of the following events with respect to the Certificates not more than 10 business days after occurrence of the event: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the federal income tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of Registered Owners of the Certificates, if



material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional paying agent/registrant or the change of name of a paying agent/registrant, if material. Neither the Certificates nor the Ordinance make any provision for debt service reserves, credit enhancement, 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 Reports". The City will file each notice described in this paragraph with the MSRB.

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

### **Availability of Information**

Effective July 1, 2009 (the "EMMA Effective Date"), the SEC implemented amendments to Rule 15c2-12 which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under Rule 15c2-12 after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the City in accordance with its undertaking made for the Certificates will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

With respect to debt of the City issued prior to the EMMA Effective Date, the City remains obligated to make annual required filings, as well as notices of material events, under its continuing disclosure obligations relating to those debt obligations (which includes a continuing obligation to make such filings with the Texas state information depository (the "SID")). Prior to the EMMA Effective Date, the Municipal Advisory Council of Texas (the "MAC") had been designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the MAC entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA's website simultaneously with such posting. Until the City receives notice of a change in this contractual agreement between the MAC and EMMA or of a failure of either party to perform as specified thereunder, the City has determined, in reliance on guidance from the MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to its continuing disclosure agreements entered into prior to the EMMA Effective Date.

### **Limitations and Amendments**

The City has agreed to update information and to provide notices of specified events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Certificates 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 Registered Owners may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement 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

the agreement, as amended, would have permitted an underwriter to purchase or sell Certificates in the offering described herein in compliance with SEC Rule 15c2-12 and either the holders of a majority in aggregate principal amount of the outstanding Certificates consent or 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 or beneficial owners of the Certificates. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Certificates, respectively, in the primary offering of the Certificates.

### **Compliance with Prior Undertakings**

During the past five years, the City has complied in all material respects with continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

Due to the recalibration of municipal credit ratings that both Fitch and Moody's completed in 2010, the City received changed ratings on its unenhanced limited ad valorem tax indebtedness from both Moody's (on April 23, 2010) and Fitch (on April 30, 2010) (see "RATINGS" herein). On June 18, 2010, the City filed notice of these material events with the MSRB through EMMA.

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

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

### **UNDERWRITING**

\_\_\_\_\_, as the authorized representative of a group of underwriters (the "Underwriters"), has agreed, subject to certain conditions, to purchase the Certificates from the City at the prices indicated on the inside front cover hereof, less an underwriting discount of \$\_\_\_\_\_, plus accrued interest on the Certificates from their dated date to their date of initial delivery to the Underwriters.

The Underwriters' obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Certificates if any Certificates are purchased. The Certificates may be offered and sold to certain dealers and others at prices lower than such public offering price, and such public prices may be changed from time to time, by the Underwriters.

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

### **FINANCIAL ADVISOR**

M.E. Allison & Co., Inc. (the "Financial Advisor") is employed by the City in connection with the issuance of the Certificates and in such capacity, has assisted the City in compiling documents related thereto. Although the Financial Advisor assisted in drafting this Official Statement, the Financial Advisor has not independently verified all of the data contained in it or conducted a detailed investigation of the affairs of the City to determine the accuracy or completeness of this Official Statement. No person should presume that the limited participation of the

Financial Advisor means that the Financial Advisor assumes any responsibility for the accuracy or completeness of any of the information contained in the Official Statement. The fee of the Financial Advisor for services rendered is contingent upon the issuance and sale of the Certificates.

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

#### **INDEPENDENT ACCOUNTANTS**

This Official Statement includes the combined financial statements of the City for the fiscal year ended July 31, 2011. These combined financial statements have been examined by Collier, Johnson & Woods, P.C., Independent Certified Public Accountants, as stated in their report set forth in Exhibit C to this Official Statement. The City has not requested Collier, Johnson & Woods to reissue its audited financial statements and Collier, Johnson & Woods has not performed any procedures in connection with this Official Statement.

#### **MISCELLANEOUS**

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

No person has been authorized 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. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer of solicitation.

#### **FORWARD LOOKING STATEMENTS**

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

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

#### **AUTHORIZATION OF THE OFFICIAL STATEMENT**

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

The Ordinance will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto issued on behalf of the City, and authorize its further use in the reoffering of the Certificates by the Underwriters.

\* \* \*

This Official Statement has been approved by the City Council of the City for distribution in accordance with the provisions of Rule 15c2-12 codified at 17 C.F.R. Section 240.15c2-12.

By: \_\_\_\_\_/s/\_\_\_\_\_  
Mayor

ATTEST:

\_\_\_\_\_/s/\_\_\_\_\_  
City Secretary

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## APPENDIX A

### FINANCIAL INFORMATION

#### DEBT PAYABLE FROM TAXES

##### Bonded Debt

The table below shows the amount of direct tax supported debt of the City as of July 1, 2012 and adjusted to include the Certificates.

2011 Assessed Valuation (100% of Market Value)		\$ 17,882,164,397
Less: Exemptions		3,796,359,499
Net Taxable Assessed Valuation <sup>(1)</sup>		\$ 14,085,804,898
General Improvement Bonds Outstanding <sup>(2)</sup>		\$
Combination Tax and Revenue Certificates of Obligation Outstanding <sup>(2)</sup>		92,210,000
2008 Tax Notes		3,275,000
2012 Public Property Financial Contractual Obligations		7,390,000
The Certificates*		5,970,000
Total Indebtedness Payable from Taxes*		\$
Less: Self-Supporting Debt <sup>(3)</sup>	\$82,067,578	
Available Interest & Sinking Funds <sup>(4)</sup>	2,241,147	\$ 84,308,725
Net Indebtedness Payable from Taxes*		\$
Ratio Total Debt to 2011 Net Taxable Assessed Valuation		%
Ratio Net Debt to 2011 Net Taxable Assessed Valuation		%
2011 Estimated City Population		307,728
Total Debt Per Capita		\$
Net Debt Per Capita		\$

\* Preliminary, subject to change.

<sup>(1)</sup> Pursuant to authority permitted by Section 1-b, Article VIII of the State Constitution, the City has granted an exemption of \$50,000 of market valuation to the residence homestead of property owners over 65 years of age and an exemption of \$50,000 of market valuation for disabled property owners. Also, the legislature, pursuant to a constitutional amendment and Section 11.22 of the Property Tax Code, mandated 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 from taxation applies to either real or personal property with the amount of assessed valuation exempted ranging from \$1,500 to \$3,000, depending on the amount of disability or whether the exemption is applicable to surviving spouse or children. Starting in tax year 1996, the exemption increased in range from \$5,000 to \$12,000 of assessed value. A disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, following the approval by the voters at a November 8, 2011 statewide election, effective January 1, 2012, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

Additionally, State law provides that an eligible owner of agricultural land or timberland may apply to have such property appraised on the basis of productivity value or on the basis of market value, whichever is less. A 1981 constitutional amendment provides local governments the option of granting homestead exemptions of up to 30% of market value for the 1985 through 1987 tax years, and up to 20% of market value thereafter. Minimum exemption is \$5,000. Since tax year 1982, the City has granted a homestead exemption of 10% of market value or \$5,000, whichever is greater. The constitutional amendment further provides that taxes may continue to be levied against the value of the homestead exemption where ad valorem taxes have been previously pledged for the payment of debt, if cessation of the levy would impair the obligation of the contract by which the debt was created. The appraisal of property within the City is the responsibility of the Nueces County Appraisal District (the "Appraisal District"). The Appraisal District is required under the Property Tax Code to assess all property within the Appraisal District on the basis of 100% of its 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 the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed either the lesser of (1) the property's market value in the most recent tax year in which it was assessed or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by the Appraisal Review board, consisting of seven members appointed by the Board of Directors of the Appraisal District. However, the Nueces County Appraisal District reappraises the value of property every

year. The City is entitled to challenge the determination of appraised value of property by category within the City by petition filed with the Appraisal Review Board.

On November 2, 2004, voters of the City approved freezing the ad valorem taxes for citizens 65 or older, or disabled, and their spouses on homesteads owned thereby.

- (2) Discount Bonds are shown at original issue amount.
- (3) To continue to maintain this debt as self-supporting, transfers have been made from the Tourist and Convention revenues and Airport Parking and Texas State Aquarium revenues, Lexington Museum, Airport Lease revenues and parking, Reinvestment Zone #2, Municipal Hotel Occupancy Taxes, Marina, Golf Centers, Storm Water, and Solid Waste in amounts sufficient to pay both principal and interest on the self-supporting debt.
- (4) The anticipated Interest and Sinking Fund balance as of July 31, 2012 is \$9,660,116. After deducting 23.2% or \$2,241,147 which applies to self-supporting debt, the balance of the Interest & Sinking Fund applicable to tax supported debt of \$7,418,969.

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## Estimated Overlapping Debt

Expenditures of the various taxing bodies, such as school and special districts, within the territory of the City of Corpus Christi are paid out of ad valorem taxes levied by these taxing bodies on properties within the City. These political taxing bodies are independent of the City and may incur borrowings to finance their expenditures. The City has not independently verified the accuracy or completeness of such information as being accurate or complete. Furthermore, certain entities listed may have issued additional bonds since the date stated in the table, and such entities may have programs requiring the issuance of a substantial amount of additional bonds, the amounts of which cannot be determined. The following table reflects the estimated share of overlapping net debt of these various taxing bodies.

<u>Taxing Body</u>	<u>Overlapping Gross Debt(\$)</u>	<u>As Of</u>	<u>Percent Overlapping(%)<sup>(2)</sup></u>	<u>Net Debt(\$)<sup>(1)</sup></u>
Calallen I.S.D.	44,871,819	4/30/2012	39.77	17,845,522
Corpus Christi I.S.D.	325,460,000	4/30/2012	94.22	306,648,412
Del Mar College District	85,405,000	4/30/2012	92.14	78,692,167
Flour Bluff I.S.D.	4,785,000	4/30/2012	85.45	4,088,783
London I.S.D.	10,874,620	4/30/2012	3.85	418,673
Nueces County (excluding special districts)	109,040,000	4/30/2012	37.05	40,399,320
Nueces County Hospital District	6,845,000	4/30/2012	37.05	2,536,073
Nueces County WC&ID No. 4	0	4/30/2012	0.47	--
Port Aransas I.S.D.	7,149,998	4/30/2012	70.08	5,010,719
Tuloso-Midway I.S.D.	49,958,468	4/30/2012	50.16	25,059,168
West Oso I.S.D.	31,629,130	4/30/2012	32.16	10,171,928
<b>Total Gross Overlapping Debt</b>				<b>490,870,764</b>

<sup>(1)</sup> Discount bonds are shown at original issue amount excluding subsequent compounding.

<sup>(2)</sup> Overlapping percentage represents the percentage of the estimated land area of the particular entity covered by the City.

Source: Municipal Advisory Council of Texas, Texas Municipal Reports and the City.

## Debt Ratios

The following table shows a comparison of the ratios of net tax supported debt, estimated net overlapping debt and combined net debt to assessed value of taxable property and estimated population in the City for the past five fiscal years. For the purpose of this table, net direct debt consists of the City's tax supported debt less the amounts considered for self-supporting debt and applicable interest and sinking funds.

	<u>2012(\$)<sup>(1)</sup></u>	<u>2011(\$)</u>	<u>2010(\$)</u>	<u>2009(\$)</u>	<u>2008(\$)</u>
Net Taxable Assessed Valuation	14,085,804,898	13,900,137,536	14,440,609,740	13,813,335,014	13,410,861,047
Estimated Population	307,728	305,215	300,000	297,447	297,447
Net Direct Debt - Tax Supported		212,546,610	227,209,148	227,358,677	152,501,365
Ratio to Assessed Value	%	1.53%	1.57%	1.65%	1.14%
Per Capita		696	756	763	512
Net Overlapping Debt		492,634,066	423,475,393	412,626,414	301,494,843
Ratio to Assessed Value	%	3.54%	2.92%	2.98%	2.24%
Per Capita		1,614	1,412	1,387	1,014
Net Direct and Net Overlapping Debt		705,090,676	650,684,541	639,985,091	453,996,208
Ratio to Assessed Value	%	5.07%	4.50%	4.62%	3.38%
Per Capita		2,310	2,169	2,152	1,526

<sup>(1)</sup> Adjusted to include the Certificates; preliminary, subject to change.

**Pro Forma Debt Service Requirements - Tax Supported Bonds**

The following table sets forth the principal and interest requirements on the City's outstanding tax supported debt.

FY	OUTSTANDING TAX SUPPORTED DEBT			THE CERTIFICATES*			TOTAL TAX SUPPORTED DEBT*		
	Principal(\$)	Interest(\$)	Total(\$)	Principal(\$)	Interest(\$) <sup>(1)</sup>	Total(\$)	Principal(\$)	Interest(\$)	Total(\$)
2013					124,979	124,979			
2014					214,250	214,250			
2015				185,000	214,250	399,250			
2016				190,000	210,550	400,550			
2017				195,000	206,750	401,750			
2018				200,000	202,850	402,850			
2019				200,000	198,850	398,850			
2020				205,000	194,850	399,850			
2021				210,000	188,700	398,700			
2022				220,000	182,400	402,400			
2023				225,000	175,800	400,800			
2024				230,000	169,050	399,050			
2025				240,000	159,850	399,850			
2026				250,000	152,650	402,650			
2027				255,000	145,150	400,150			
2028				265,000	137,500	402,500			
2029				275,000	126,900	401,900			
2030				285,000	115,900	400,900			
2031				295,000	104,500	399,500			
2032				305,000	92,700	397,700			
2033				320,000	80,500	400,500			
2034				330,000	67,700	397,700			
2035				345,000	54,500	399,500			
2036				365,000	37,250	402,250			
2037				380,000	19,000	399,000			
				5,970,000	3,577,379	9,547,379			

\* Preliminary, subject to change.

<sup>(1)</sup> Interest calculated at an assumed rate for purposes of illustration.

## Interest and Sinking Fund Management

A ten year record of the City's policy of maintaining substantial reserves for the next year's debt service requirement on the City's Tax Supported Debt is set out below:

Year Ended	Principal and Interest Requirements(\$)	Tax Collections & Other Revenue(\$) <sup>(1)</sup>	I&SF Balance End of Year(\$) <sup>(2)</sup>	Percent of Next Year's Requirements(%)
7-31-2002	23,613,985 <sup>(3)</sup>	22,817,235	11,282,621	48.1
7-31-2003	24,221,824 <sup>(4)</sup>	24,846,218	11,907,015	46.2
7-31-2004	26,360,208	25,704,993	11,251,800	42.2
7-31-2005	27,769,909	26,846,675	10,328,564	39.0
7-31-2006	27,996,942 <sup>(5)</sup>	27,935,063	10,255,911	33.5
7-31-2007	30,610,155	31,988,938	11,622,271	40.8
7-31-2008	29,211,053	34,200,653	16,591,514	66.8
7-31-2009	34,200,614	35,065,792	10,134,301	29.6
7-31-2010	32,909,628	35,606,385	11,923,519	36.2
7-31-2011	31,558,671	34,906,020	14,436,907	45.7

<sup>(1)</sup> Other revenue includes transfers from Enterprise funds for self-supporting debt, interest on reserve and construction funds and other sources.

<sup>(2)</sup> Since 1988 the principal and interest requirements and Interest and Sinking Fund balance have included the Tax Increment Financing Zone debt, which is funded by taxes from the City, Nueces County, Corpus Christi Independent School District, and the Corpus Christ Junior College District. In 2004, the bonds associated with the Tax Increment Financing Zone #1 matured. This table removes the Tax Increment Financing Zone debt and reflects only the City's debt.

<sup>(3)</sup> On December 1, 2001, a partial refunding of the City's General Improvement Bonds was effected to take advantage of lower interest rates. Principal and interest in the amount of \$11,340,000 includes \$197,291 in bond issuance expenses paid on this refunding issue.

<sup>(4)</sup> On April 1, 2003, a partial refunding of the City's General Improvement Bonds was effected to take advantage of lower interest rates. Principal and interest in the amount of \$22,575,000 includes \$338,430 in bond issuance expenses paid on this refunding issue.

<sup>(5)</sup> On September 1, 2004, a partial refunding of the City's General Improvement Bonds was effected to take advantage of lower interest rates. Principal and interest in the amount of \$27,769,909 includes \$365,529 in bond issuance expenses paid on this refunding issue. On June 1, 2005, a partial refunding of the City's General Improvement Bonds was effected to take advantage of lower interest rates. Principal and interest in the amount of \$27,769,909 includes \$1,129,938 in bond issuance expenses paid on this refunding issue.

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### Detailed Interest and Sinking Fund Management Index

	Actual 2010-11(\$)	Actual 2009-2010(\$)	Actual 2008-2009(\$)	Actual 2007-2008(\$)	Actual 2006-2007(\$)
Balance on Hand Previous Year	11,923,519	10,134,301	16,591,514	11,622,271	10,255,912
Revenues:					
Ad Valorem Taxes	27,221,210	27,345,690	26,227,912	24,884,901	22,036,645
Payment from Texas State Aquarium	373,232	361,107	518,318	508,685	518,117
Payment from Lexington Museum Associates	275,647	272,796	285,022	248,868	347,173
Payment from Corpus Christi Conv. & Visitors	--	--	--	--	--
Harbor Playhouse contribution for TESS	--	--	--	--	--
Art Museum Bureau to TESS	--	--	--	--	--
Fund Contributions:					
Transfer from Airport Fund	37,851	204,450	198,181	423,206	510,582
Transfer from Golf Centers Fund	11,007	10,919	10,980	64,763	--
Transfers from Reinvestment Zone #1	--	--	--	--	--
Transfer from Hotel Occupancy Tax Fund	1,991,680	2,492,473	2,489,296	1,886,648	2,492,278
Transfer from Visitors Facility Fund	--	--	--	15,026	15,169
Transfer from General Fund	4,821,415	4,676,897	4,330,611	4,185,390	3,818,052
Transfer from Maintenance Services Fund	--	--	--	147,051	148,448
Transfer from Municipal Information Services Fund	--	--	--	196,869	200,194
Transfer from Marina Revenue Fund	19,069	18,917	19,023	76,910	123,779
Transfer from Utility System Fund	98,145	133,644	176,951	998,216	1,193,334
Transfer from Stores Fund	--	--	--	14,523	14,661
Transfer from Liability and Employee Benefits Fund	--	--	--	15,522	15,669
Transfer from Development Services Fund	--	--	--	--	12,888
Interest on Investments	46,764	89,492	283,267	534,075	541,948
Other Revenues					
Net Proceeds from Refunding Bonds	--	--	526,230	--	--
Miscellaneous	10,000	--	--	--	--
Total Revenues	<u>34,906,020</u>	<u>35,606,385</u>	<u>35,065,791</u>	<u>34,200,653</u>	<u>31,988,937</u>
Expenditures:					
Principal retired	17,225,924	19,485,000	30,245,000	17,840,000	20,065,000
Interest	16,649,639	14,313,227	11,264,815	11,371,053	10,545,155
Paying agent fees	17,699	18,940	13,189	10,857	12,423
Bond Issuance Cost	--	--	--	9,500	--
Total expenditures	<u>32,392,632</u>	<u>33,817,167</u>	<u>41,523,004</u>	<u>29,231,410</u>	<u>30,622,578</u>
Closing Balance <sup>(1)</sup>	<u>14,436,907</u>	<u>11,923,519</u>	<u>10,134,301</u>	<u>16,591,514</u>	<u>11,622,271</u>

<sup>(1)</sup> The City anticipates a Closing Balance as of July 31, 2012 of \$9,660,116.

## General Fund Balances

Fiscal Year Ending July 31

	2011(\$)	2010(\$)	2009(\$)	2008(\$)	2007(\$)
<b>Revenues:</b>					
Taxes & business fees	120,077,657	115,988,341	117,074,319	115,198,120	111,500,632
Licenses and permits	4,885,342	3,288,415	3,700,195	3,576,249	3,399,993
Intergovernmental	411,412	356,181	715,443	403,127	497,520
Charges for services	55,357,860	52,553,384	50,802,031	48,952,962	44,505,375
Fines and forfeitures	4,710,688	5,652,401	6,897,078	6,825,170	6,907,942
Interest on investments	185,159	335,931	707,797	1,532,486	1,500,447
Miscellaneous	2,117,526	1,685,715	1,275,286	1,199,353	1,064,729
<b>Total Revenues</b>	<b>187,745,644</b>	<b>179,860,368</b>	<b>181,172,149</b>	<b>177,687,467</b>	<b>169,376,638</b>
<b>Expenditures:</b>					
General government	15,605,207	17,324,672	17,726,201	16,131,881	14,298,422
Public safety	114,239,238	109,770,949	107,255,349	102,772,631	98,665,201
Streets	15,182,605	14,601,145	15,937,459	14,224,719	13,183,111
Solid Waste	22,417,906	18,160,649	16,985,429	18,249,243	15,168,861
Health	4,548,717	4,807,657	4,659,525	4,428,969	4,154,426
Community enrichment	18,974,005	20,066,220	19,845,314	20,773,243	17,885,895
Miscellaneous <sup>(1)</sup>	145,511		--	--	--
<b>Debt service:</b>					
Principal Retired	1,844,154	2,763,223	2,111,227	3,018,049	3,073,876
Interest	1,899,028	292,268	236,828	237,267	198,600
<b>Total Expenditures</b>	<b>194,856,371</b>	<b>187,786,783</b>	<b>184,757,332</b>	<b>179,836,002</b>	<b>166,628,392</b>
Excess (deficiency) of revenues over expenditures	(7,110,727)	(7,926,415)	(3,594,183)	(2,148,535)	2,748,246
<b>Other financing sources (uses):</b>					
Capital leases	5,655,103	4,110,898	3,746,061	2,623,408	3,447,512
Operating Transfers in	10,265,053	9,989,823	4,246,170	4,981,976	4,623,722
Operating Transfers out	(7,592,941)	(7,089,914)	(6,343,795)	(5,673,653)	(5,405,534)
<b>Total other financing sources (uses)</b>	<b>8,327,215</b>	<b>7,010,807</b>	<b>1,648,436</b>	<b>1,931,731</b>	<b>2,665,880</b>
Excess (deficiency) of revenues and other sources over expenditures and other uses**	1,216,488	(915,608)	(1,945,747)	(216,804)	5,414,126
Fund balance at beginning of year	29,348,444	30,264,053	32,209,800	32,426,604	27,012,478
<b>Fund balance at end of year</b>	<b>30,564,932</b>	<b>29,348,445</b>	<b>30,264,053</b>	<b>32,209,800</b>	<b>32,426,604</b>

\*\* Operating deficits were planned draws.

<sup>(1)</sup> Beginning 2005, Miscellaneous expenditures were reclassified to General Government.

## Industrial Districts

During 1980, the City designated two areas of land within its extraterritorial jurisdiction as industrial district areas for the purpose of establishing industrial district contracts. An annual in lieu of tax payment is collected from industries located thereon in return for continuation of their extraterritorial status.

Both areas combined comprise approximately 14,020 acres. The improvements located thereon are primarily commercial or industrial in nature. The area designated as Industrial District Number One is located on the City's northeast side contiguous to Nueces Bay and the harbor area. Industrial District Number Two is located on the City's northwest side and is bound primarily by the east City limit line, F.M. Road 1694 and State Highway 44. The City's authority to designate industrial districts is provided under Section 42.044, Local Government Code of the Revised Civil Statutes of Texas and extends to the entire extraterritorial jurisdiction of the City.

Subsequent to the designation of the above mentioned area, all owners or lessees of property used for industrial purposes in either area were provided an opportunity to execute one or two industrial district agreements approved by the City. The agreement would provide an industry immunity from annexation for the term of the contract (presently ten years), and allow an extension of the agreement beyond that period by mutual agreement.

The agreement also provides for an annual in lieu of tax payment based on the market value of property within each company's designated industrial district. The payment is computed by applying the tax rate to 100 percent of the market value of the industrial district's land and to 60 percent of the market value of improvements located on such land. New improvements completed since January 1974, are considered at a reduced percentage of market value (i.e., on a sliding scale up to 60 percent). An additional 15 percent of market value of an industry's improvement property is considered in calculating the payment if an industry is not a member of the Refinery Terminal Fire Company and depends on the City Fire Department for fire protection. All in lieu of tax payments are recorded as revenue to the City's General Fund.

The agreements first became effective January 1, 1981, and the City Council has authorized three extensions of all contracts, the last being effective January 1, 2005. Fifty-eight companies are now operating under industrial district agreements.

The total assessed value of land and improvements comprising all the existing industrial districts approximated \$2,693,904,881 as of January 1, 2011. The City received industrial district payments as follows:

<u>Fiscal Year</u>	<u>Amount(\$)</u>
2001-02	5,630,018
2002-03	5,797,952
2003-04	5,913,767
2004-05	5,752,858
2005-06	5,839,686
2006-07	5,899,224 <sup>(1)</sup>
2007-08	5,653,371 <sup>(1)</sup>
2008-09	6,002,640
2009-10	6,104,418
2010-11	6,156,789

<sup>(1)</sup> The City Council adopted a financial policy to adopt the effective tax rate which lowered the actual property tax rate. Since the assessed values for the industrial district properties did not materially increase, the industrial district payments decreased.

## Sales and Use Tax

The City imposes a 1% City sales and use tax which is now one of the major sources of income for the General Fund. Revenues from Sales Tax for the past ten fiscal years have been as follows:

Fiscal Year	Total Collected(\$)	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Sales Tax Per Capita Last Census (\$)
2001-2002	32,674,742	63.17	0.41	117.77
2002-2003	32,351,154	59.60	0.38	116.60
2003-2004	34,120,633	59.20	0.38	122.98
2004-2005	36,367,571	63.09	0.41	128.95
2005-2006	39,442,670	60.46	0.38	131.65
2006-2007	42,082,398	61.68	0.37	142.37
2007-2008	44,345,165	61.57	0.42	149.09
2008-2009	44,416,163	57.50	0.32	149.32
2009-2010	40,460,050	50.87	0.28	134.87
2010-2011	44,478,983	55.92	0.31	148.26

## AD VALOREM TAXES

Subject to certain exemptions, the property tax is imposed on real and personal property situated in the City. In addition to exemptions discussed below, principal categories of exempt property include property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by producers; certain property associated with charitable organizations, use and development associations, religious organizations, and qualified schools; designated historic sites; solar and wind powered energy devices; and most individually owned automobiles. In addition, owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value.

### Exemptions - Over 65 and Disabled

Pursuant to provisions of the Texas Constitution, the City may exempt an amount from the assessed valuation on the homesteads of persons 65 years of age or older and certain disabled persons to the extent approved by the City Council (and must grant an exemption to the extent voted by the majority of the City's voters at an election called upon a petition of 20% of the number of voters voting in the City's most recent election). If a disabled or elderly person dies in a year in which the person received a residence homestead exemption, the total amount of ad valorem taxes imposed on the homestead by the taxing unit may not be increased while it remains the residence homestead of that person's surviving spouse if (i) the spouse was fifty-five years of age or older at the time of the person's death, (ii) the surviving spouse was at least 55 years of age when the spouse died, and (iii) the property was the residence homestead of the surviving spouse when the spouse died and the property remains the residence property of the surviving spouse.

### Disabled Veterans Exemptions

Beginning with the tax year 1976, under provision of the Texas Constitution, the City must grant an exemption ranging from \$1,500 to \$3,000 of assessed value of residential homesteads or personal property of disabled veterans who file for the exemption based on a formula of the percent of disability claimed. Starting in tax year 1996, the exemption increased in range from \$5,000 to \$12,000 of assessed value.

Section 11.131 of the Texas Tax Code states that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead.

Following the approval by the voters at a November 8, 2011 statewide election, effective January 1, 2012, the surviving spouses of a deceased veteran who had received a disability rating of 100% is entitled to receive a

residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

**Exemption - Local Option**

Under provisions of a Constitutional Amendment, the City has the option of granting a homestead exemption of up to 20% of market value. Minimum exemption is \$5,000. For the years beginning with 1982, the City has granted 10% of market value or \$5,000 exemptions, whichever is greater.

In a statewide election held on September 13, 2003, Texas voters approved an amendment to Section 1-b, Article VIII of the Texas Constitution, that would authorize a county, city, town or junior college district to establish an ad valorem tax freeze on residence homesteads of the disabled and of the elderly and their spouses. On November 2, 2004, citizens approved the establishment of the tax limitations described above.

Once the tax limitation is established, the total amount of ad valorem taxes imposed by the City on a homestead that receives the exemption may not be increased while it remains the residence homestead of that person or that person's spouse who is disabled or sixty-five years of age or older, except to the extent the value of the homestead is increased by improvements other than repairs. If a disabled or elderly person dies in a year in which the person received a residence homestead exemption, the total amount of ad valorem taxes imposed on the homestead by the taxing unit may not be increased while it remains the residence homestead of that person's surviving spouse if (i) the spouse was 55 years of age or older at the time of the person's death, (ii) the surviving spouse was at least 55 years of age when the spouse died, and (iii) the property was the residence homestead of the surviving spouse when the spouse died and the property remains the residence property of the surviving spouse. In addition, the Texas Legislature by general law may provide for the transfer of all or a proportionate amount of the tax limitation applicable to a person's homestead to be transferred to the new homestead of such person if the person moves to a different residence within the taxing unit. Once established, the governing body of the taxing unit may not repeal or rescind the tax limitation.

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**Assessed Valuations**

The Nueces County Appraisal District provided the City with a certified appraisal roll on July 22, 2011, for tax year 2011. The following table sets forth a comparison of the total net taxable property assessed valuation as of January 1 for the past ten years:

Tax Year	Basis of Assessment(%)	<u>Real Property</u>		<u>Personal Property</u>		<u>Total<sup>(2)</sup></u>		Percentage of Increase (Decrease)(%)
		<u>Net Taxable Assessed Value(\$)</u> <sup>(1)</sup>	<u>Estimated Market Value(\$)</u>	<u>Net Taxable Assessed Value(\$)</u> <sup>(1)</sup>	<u>Estimated Market Value(\$)</u>	<u>Net Taxable Assessed Value(\$)</u> <sup>(1)</sup>	<u>Estimated Market Value(\$)</u>	
2002	100	7,425,008,625	8,922,477,009	1,001,648,102	1,047,865,471	8,426,656,727	9,970,342,480	5.3%
2003	100	7,926,634,055	9,525,269,802	1,021,262,343	1,091,986,683	8,947,896,398	10,617,256,485	6.5%
2004	100	8,465,741,365	10,272,935,304	1,173,820,407	1,191,484,860	9,639,561,772	11,464,420,164	8.0%
2005	100	9,304,960,019	11,130,529,932	1,183,064,809	1,230,303,736	10,488,024,828	12,360,833,660	7.7%
2006	100	10,234,441,848	12,166,239,146	1,186,864,070	1,247,502,997	11,421,305,918	13,413,742,143	8.6%
2007	100	11,694,623,855	14,084,066,107	1,416,208,996	1,447,200,791	13,110,832,851	15,531,266,898	15.8%
2008	100	12,361,873,857	14,738,455,220	1,451,461,157	1,481,661,131	13,813,335,014	16,220,116,351	4.5%
2009	100	13,155,520,834	15,599,675,802	1,285,088,906	1,523,844,670	14,440,609,740	17,123,520,472	5.6%
2010	100	12,728,912,006	15,899,330,012	1,171,225,530	1,462,945,239	13,900,137,536	17,362,275,251	1.4%
2011	100	12,310,233,012	15,640,922,141	1,775,571,885	2,255,975,300	14,085,804,898	17,896,897,441	3.1%

<sup>(1)</sup> Amounts shown are net taxable assessed values after the following deductions: residential homestead exemptions including exemptions granted to persons disabled and/or 65 years of age and older; exemptions granted to disabled and deceased veterans; productivity value loss; tax abatements; and agricultural use. Exemptions are granted to disabled veterans or their survivors based upon a percentage of type of disability with a minimum exemption of \$1,500 and a maximum exemption of \$3,000. Starting in fiscal year 1996-97, these exemptions increased to a new range: from a minimum of \$5,000 to a maximum of \$12,000 of assessed value. Mobile homes, while classified as personal property, may be residential homesteads.

<sup>(2)</sup> Under the provisions of a Constitutional Amendment, the City has the option of granting homestead exemption of up to 20% of market value. Minimum exemption is \$5,000. Since tax year 1982, the City has granted a homestead exemption of 10% of market value or \$5,000, whichever is greater.

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### Exemptions - Over 65 Exemptions

Tax Year	Assessed Value Exemption(\$) <sup>(1)</sup>	Number of Exemptions	Assessed Value of Exemptions(\$)	Average Value(\$)
2003	50,000	16,602	713,508,103	42,977
2004	50,000	16,670	729,550,443	43,764
2005	50,000	16,770	747,885,037	44,597
2006	50,000	16,795	756,289,977	45,031
2007	50,000	16,959	774,587,868	45,674
2008	50,000	17,166	802,600,366	46,755
2009	50,000	17,177	802,699,473	46,731
2010	50,000	17,375	819,145,241	47,145
2011	50,000	17,868	841,638,516	47,103

### Disabled Taxpayers Exemptions

Tax Year	Assessed Value Exemption(\$) <sup>(1)</sup>	Number of Exemptions	Assessed Value of Exemptions(\$)	Average Value(\$)
2003	50,000	2,880	115,715,191	40,179
2004	50,000	3,038	124,941,699	41,126
2005	50,000	3,270	136,391,738	41,710
2006	50,000	3,543	153,034,972	43,194
2007	50,000	3,858	169,395,823	43,908
2008	50,000	4,074	184,952,780	45,398
2009	50,000	4,280	194,297,769	45,397
2010	50,000	4,504	204,995,262	45,514
2011	50,000	4,679	205,544,886	43,929

### Disabled Veterans Exemptions

Tax Year	Assessed Value Exemption <sup>(1)</sup>	Number of Exemptions	Assessed Value of Exemptions(\$)	Average Value(\$)
2003	(2)	2,241	20,755,630	9,262
2004	(2)	2,404	22,271,738	9,264
2005	(2)	2,562	23,814,922	9,295
2006	(2)	2,675	24,676,948	9,225
2007	(2)	2,822	26,170,310	9,274
2008	(2)	2,994	27,809,472	9,288
2009	(2)	3,100	30,377,347	9,799
2010	(2)	3,247	41,283,581	12,714
2011	(2)	3,687	96,175,499	26,085

See notes, next page.

## Homestead Exemption-Local Option

Tax Year	Assessed Value Exemption <sup>(1)</sup>	Number of Exemptions	Assessed Value of Exemptions(\$)	Average Value(\$)
2003	(3)	56,051	434,924,406	7,759
2004	(3)	56,560	467,542,416	8,266
2005	(3)	57,473	503,873,807	8,767
2006	(3)	57,748	540,248,333	9,355
2007	(3)	58,305	583,485,482	10,007
2008	(3)	58,784	668,799,297	11,377
2009	(3)	59,186	697,842,878	11,791
2010	(3)	60,121	744,021,763	12,375
2011	(3)	59,624	704,863,979	11,822

<sup>(1)</sup> This exemption was granted pursuant to an election held on April 6, 1987, called upon petition of the voters of the City.

<sup>(2)</sup> Beginning with tax year 1976, under provision of the Texas Constitution, the City must grant an exemption ranging from \$1,500 to \$3,000 of assessed value of residential homesteads or personal property of disabled veterans who file for the exemption based on a formula of the percent of disability claimed. Starting in tax year 1996, the exemption increased in range. The new range is from \$5,000 to \$12,000 of assessed value.

<sup>(3)</sup> Under provisions of a Constitutional Amendment, the City has the option of granting homestead exemption of up to 20% of market value. Minimum exemption is \$5,000. The City has granted 10% of market value or \$5,000 exemptions, whichever is greater.

## Tax Abatement

State law authorizes subdivisions of the State of Texas to grant tax abatements to any person, organization or corporation in order to stimulate economic development within the State. Consequently, the City Council has adopted a resolution establishing criteria whereby the City will, on a case-by-case basis, give consideration to providing tax abatement to any qualifying applicant. Generally, the period of abatement is for up to two years during the period of construction and for five years thereafter with a maximum period not to exceed seven years. The percentage of tax abated shall be determined based upon permanent jobs provided by the project as follows: 0% on 49 or less; 50% on 50 to 99; 75% on 100 to 199; 100% on over 200. Notwithstanding the resolution adopted by the City Council, or the criteria attendant thereto, it is not implied or suggested that the City is under any obligation to provide tax abatement to any applicant. As of January 1, 2011 the estimated value of property in the City that was subject to tax abatement is \$482,650,287.

## Tax Rates and Limitations

The maximum tax rate permitted by the Constitution of Texas is \$2.50 per \$100 of assessed valuation. On April 3, 1993, the citizens of Corpus Christi voted to amend the City Charter which contained a tax limitation of \$0.68 per \$100 of assessed valuation for all purposes including debt service. The amended Charter provides for the tax rate to increase up to the State limit for voter approved debt authorized after April 4, 1993.

The ad valorem tax rate is levied each year by the City Council through the adoption of a tax rate ordinance. Effective January 1, 2000, all taxing units must adopt their tax rates before the later of September 30 or the 60th day after the taxing unit receives the appraisal roll. The following table indicates the tax rate distribution for the past nine tax years and current tax year.

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### Tax Rate Distribution (per \$100)

<u>Tax Year</u>	<u>General Fund(\$)</u>	<u>Interest &amp; Sinking Funds(\$)</u>	<u>Total(\$)</u>
2002	0.460031	0.184144	0.644175
2003	0.466554	0.177621	0.644175
2004	0.460000	0.174175	0.634175
2005	0.426624	0.199175	0.625799
2006	0.403197	0.199175	0.602372
2007	0.364671	0.199175	0.563846
2008	0.364671	0.199175	0.563846
2009	0.364671	0.199175	0.563846
2010	0.385131	0.197138	0.582269
2011	0.380339	0.190218	0.570557

### Truth-in-Taxation Limitation

Under Title 1 of the Texas Tax Code (known as the “Property Tax Code”), the City must annually calculate and publicize its “effective tax rate” and “rollback tax rate”. A tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held on the proposed tax rate following a notice of such public hearings (including the requirement that notice be posted on the City’s website if the City owns, operates or controls an internet website and public be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. 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 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.

### Levy and Collection of Taxes

The City has contracted for the collection of its property taxes with the Nueces County Tax Assessor/Collector. In July or August of each year, the rate of taxation is set by the City Council based upon the valuation of property within the City as of January 1. Ad valorem taxes are due on receipt of a tax bill and payable from October 1 of the year in which levied until January 31 of the following year without interest or penalty. Split payments are not allowed. On February 1, the unpaid taxes become delinquent and have a penalty and interest charge of seven (7%) percent. Taxes delinquent from March 1 through June 30 have an additional penalty and interest charge of two (2%) percent per month for a total penalty and interest charge of fifteen (15%) percent. Taxes delinquent on July 1 have a total penalty and interest charge of eighteen (18%) percent. Taxes delinquent on July 1 accrue an additional fifteen (15%) percent for collection cost of taxes. Unpaid taxes after July 31 accrue an additional interest charge of one (1%) percent per month until paid. The Property Tax Code makes provision for discounts for early payment and the postponement of the delinquency date under certain circumstances. Fiscal year 1991-92 was the last year the City granted a discount for early payment. The discounts were three (3%) percent in October, two (2%) percent in November, and one (1%) percent in December. For fiscal years after 1991-92, the City did not offer discounts.

## Levy and Collection of Taxes

The following Table I sets forth a comparison of the net taxable assessed valuation, tax rate levy and percentage of taxes collected for the past nine fiscal years. Table II sets forth a comparison of the tax levies and also indicates the amount of uncollected delinquent taxes.

**Table I**

Tax Year	Net Taxable Assessed Valuation(\$)	Tax Rate(\$)	% Current	% of Total	Year Ending
2002	8,426,656,727	0.644175	96.1	99.1	7-31-03
2003	8,947,896,398	0.644175	96.1	98.9	7-31-04
2004	9,639,561,772	0.634175	96.3	99.3	7-31-05
2005	10,488,024,828	0.625799	96.0	98.6	7-31-06
2006	11,421,305,918	0.602372	95.2	97.7	7-31-07
2007	13,110,832,851	0.563846	97.3	99.7	7-31-08
2008	13,813,335,014	0.563846	96.8	99.2	7-31-09
2009	14,440,609,740	0.563846	96.91	99.48	7-31-10
2010	13,900,137,536	0.582269	97.48	100.07	7-31-11
2011	14,085,804,898	0.570557	*	*	7-31-12

\* Unavailable until the end of the 2011-2012 Fiscal Year.

**Table II**

Tax Year	Net Current Tax Levy(\$)	Current Tax Collections(\$)	Delinquent Tax Collections(\$)	Total Tax Collections(\$)	Outstanding Delinquent Tax(\$)	Outstanding Delinquent Tax as Percent of Current Levy(%)	Fiscal Year Ending
2002	54,282,374	52,161,807	1,631,724	53,793,530	4,985,476	9.2	7-31-03
2003	57,640,112	55,417,905	1,575,879	56,993,784	6,332,114	11.0	7-31-04
2004	61,131,691	58,864,317	1,829,112	60,693,430	4,794,920	7.8	7-31-05
2005	65,237,253	62,656,806	1,684,900	64,341,706	4,961,481	7.6	7-31-06
2006	68,230,749	64,961,636	1,704,973	66,666,609	5,038,461	7.4	7-31-07
2007	72,029,119	70,048,380	1,756,979	71,805,359	5,241,882	7.2	7-31-08
2008	76,595,854	74,146,566	1,828,812	75,975,378	5,655,522	7.4	7-31-09
2009	79,537,895	77,079,808	2,040,856	79,120,664	5,757,290	7.2	7-31-10
2010	78,777,938	76,795,311	2,035,534	78,830,845	5,423,366	6.9	7-31-11
2011							

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## Principal Ad Valorem Taxpayers

The following table identifies the taxpayers in the City with the ten largest assessed valuations in 2011.

	Name of Taxpayer	Type of Business	2011 Assessed Value(\$)
1	Barney M. Davis Power Station	Power Plant	264,864,190
2	American Electric Power Texas Central Co.	Electric Utility	92,565,300
3	Corpus Christi Retail Venture LP	Commercial Properties	78,804,140
4	H. E. Butt Grocery Company	Retail Stores	70,328,151
5	Markwest Javelina Pipeline Company	Energy and Natural Gas	62,415,670
6	Bay Area Health Care	Hospital/Healthcare	53,479,825
7	Wal-Mart Real Estate Business Trust	Retail Stores	43,320,430
8	Air Products, LLC	Gas Industry	37,794,200
9	AT&T	Telephone Services	37,666,080
10	TRT Development Company	Commercial Properties	34,453,374

Percentage of Total to Tax Year 2011 Net Taxable Assessed Value equals 5.51%

Source: Nueces County Appraisal District.

## THE TAX INCREMENT FINANCING ACT

### General Information

On November 3, 1981, the voters of the State of Texas approved a constitutional amendment empowering the legislature to authorize by general law the issuance of bonds or notes by incorporated cities or towns to finance the development or redevelopment of an unproductive, underdeveloped, or blighted area within the city or town and to pledge for repayment of those bonds or notes increases in ad valorem tax revenue imposed on property in the area of the city or town and other political subdivisions. In anticipation of the adoption of the constitutional amendment, the Legislature, in 1981, adopted the Texas Tax Increment Financing Act of 1981 which is currently codified in Chapter 311 of the Texas Tax Code (the "Act"). The Act has been upheld through court challenge.

The assessed value of property in a reinvestment zone at the time of the creation of the zone constitutes the base value as to all political subdivisions exercising taxing power within the reinvestment zone. Tax receipts from all such political subdivisions received as a result of increased assessed values over the base value (the tax increment) are placed in the tax increment fund and may be used to pay for capital improvements or to pay tax increment bonds or notes.

### Corpus Christi Reinvestment Zones

On December 29, 1982, the City Council designated a portion of the City as a reinvestment zone pursuant to the Act. The area was designated as Corpus Christi Reinvestment Zone No. 1 ("Zone No. 1"). In accordance with the terms approving the creation of Zone No. 2 (defined below), Zone No. 1 was terminated on March 1, 2004.

On November 14, 2000, the City Council passed an ordinance creating the Corpus Christi Reinvestment Zone No. 2 ("Zone No. 2") encompassing approximately 1,934 acres on North Padre Island. The preliminary plan calls for funding the local share of the reopening of a channel to the Gulf of Mexico, Packery Channel, along with beach restoration in front of the Padre Island seawall and related improvements. Nueces County, the Nueces County Hospital District, and Del Mar College (formerly Corpus Christi Junior College) have agreed to participate in Zone No. 2. Pursuant to rights reserved to and exercised by the citizens of the City in its Charter, a referendum petition was filed to require an election on whether to repeal the City's ordinance adopted on November 14, 2000. In response to the petition, the City Council called an election on repeal of this ordinance for April 7, 2001. At this election the citizens voted not to repeal the November 14, 2000 ordinance. In 2003, \$5,000,000 in bonds were issued, in 2004 \$4,100,000 in bonds and in 2006 \$2,900,000 in bonds were issued by the North Padre Island Development Corporation, a non-profit corporation created by the City for the purpose of issuing bonds in furtherance of the development of Zone No. 2. In March 2008, the Corporation issued \$13,445,000 in refunding bonds, refinancing all of the previously issued bonds, to generate a debt service savings.

On December 16, 2008 the City Council approved a 20 year Tax Increment Financing Zone for the Downtown area, designated as the Corpus Christi Reinvestment Zone No. 3 ("Zone No. 3"). Zone No. 3 is intended

to address the problem of substandard, slum and/or deteriorating structures within the boundaries of Zone No. 3, the predominance of defective or inadequate sidewalk and street layouts and conditions that endanger life or property by fire or other cause.

The boundaries of Zone No. 3 start along the Bayfront from the Sea town area (ship channel) on the North, Morgan Avenue to the South and west to Tanchhua Street.

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The primary function of Zone No. 3 will be the planning, design and construction of public improvements. Zone No. 3 is only one of a variety of planned funding sources and programs that will act in concert to accomplish a changed public environment in downtown. Over the last ten (10) years the City has invested over \$150 million in the downtown area, and \$47 million is planned for locations partly or wholly within Zone No. 3 intended to rehabilitate and improve existing public infrastructure. Some examples of possible improvements include:

- Streetscape, sidewalks and crosswalks
- Roadways and traffic management
- Parks, public spaces and public facilities
- Utilities and drainage
- Land assembly
- Environmental remediation and safety improvements
- 

The City’s contribution of its tax increment revenues to Zone No. 3 is projected to be \$28.5 million over the 20 year period. The City will request the participation of Nueces County and Del Mar College, a junior college district and a taxing unit whose boundaries are coterminous with those of Nueces County. If these two entities elect to fully participate for the 20 years, it is estimated that Zone No. 3 will collect a total of \$59.9 million in tax increment revenues. The revenue projections assume a 3% growth in valuations and a 98% tax collection rate throughout the duration of Zone No. 3. The City estimates that the decision of Nueces County and Del Mar College to participate in Zone No. 3 will be known by the end of the first quarter of 2009.

**Reinvestment Zone Ad Valorem Taxes**

The following table sets forth the net taxable assessed values (assessed value net of exemptions) in Zone No. 2 for Fiscal Year 2009-2010 and the related levy. The Corporation issued an additional \$2,900,000 in 2006 to complete the \$12,000,000 authorized amount. In 2008 the Corporation issued refunding bonds for the full amount of the bonds.

**Reinvestment Zone No. 2**

Entity	Gross Appraised Value(\$)	Current Taxable Value(\$)	Jurisdiction Taxable Value(\$)	Jurisdiction Levy(\$)	TIF Taxable Value(\$)	TIF Levy(\$)
Nueces County	417,516,411	385,607,977	81,914,369	240,025	304,890,394	1,069,952
Farm to Market	417,516,411	385,289,977	81,763,172	2,959	304,701,691	13,190
Hospital District	417,516,411	385,607,977	81,914,369	107,708	304,890,394	471,625
City of Corpus Christi	417,516,411	389,364,763	82,695,893	388,751	307,547,980	1,734,098
College <sup>(1)</sup>	417,516,411	391,276,295	82,890,624	794,389	309,228,376	155,474
				<u>1,533,902</u>	<u>1,531,258,835</u>	<u>3,444,339</u>

<sup>(1)</sup> Starting in Tax Year 2007, College District contributes a reduced percentage (60%) to Reinvestment Zone No. 2.

**The Texas State Aquarium**

In 1996, the City issued \$4,400,000 in Combination Tax and Texas State Aquarium Revenue Bonds, the proceeds of which were used to purchase land, improvements, and capital equipment owned by the Aquarium and to build exhibits at the Aquarium which are deemed essential to continue to attract visitors. The debt service on these obligations are payable from revenues pursuant to the Contract between the City and the Association. The revenues identified under the heading “Operating Revenues-Admissions” in the following table are being made available to the City under a Contract with the Association, dated February 27, 1996, on a “gross revenue” basis. The contribution of such revenues may have an affect on the ability of the City or the Association to pay operating costs of the Aquarium exclusively from revenues generated from the use of the Aquarium. To the extent such revenues are not sufficient to pay debt service due and owing on these obligations, these obligations additionally are payable from a pledge of ad valorem taxes to be levied by the City.



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## **APPENDIX B**

### **CERTAIN INFORMATION RELATING TO THE CITY OF CORPUS CHRISTI**

The following information has been provided by the City from sources it believes to be reliable. Information contained herein regarding industries and other private institutions in the Corpus Christi area are for general background purposes only.

#### **Population and Location**

Corpus Christi is now the eighth largest city in the State of Texas with a population of 305,215 based on the 2010 United States Census report. The geographic location of the City on the Gulf of Mexico and the Intercoastal Waterway gives it one of the most strategic locations in the Southwest and has been important to its economic development.

Additional general information concerning the City's population and economy can be found under the caption "Economic and Demographic Characteristics" in the City's financial information contained in "CERTAIN AUDITED FINANCIAL STATEMENTS" attached hereto as Appendix B.

#### **Area**

The area of the City has increased through annexation as the City's population and industry grew. The City has had numerous annexations and now contains approximately 504 square miles, which is broken down to approximately 150 square miles of land and 354 square miles of water. While the area covered by water contains no population and does not require normal city services, it does produce considerable revenues from oil and gas properties located therein.

#### **Form of Government and Administration**

The City was incorporated in 1852. In 1909, the City was organized under a City Charter and operated as a general law city until 1926, when a Home Rule Charter (the "Charter") with a commission form of government was adopted. The Charter was amended in 1945 and the present Council-Manager form of government was adopted.

The City Council consists of the Mayor and eight Council Members elected for two year terms. The Mayor and three Council Members are elected at large and five Council Members from single member districts. These nine officials are listed elsewhere in this document.

The City Manager is appointed by the City Council and is the Chief Administrative and Executive Officer of the City. The Director of Financial Services is appointed by the City Manager and is charged with the administration of fiscal affairs of the City.

The City Council fixes the annual tax rate based on a budget prepared under the direction of the City Manager.

The names, years of services, experience, and background of certain appointed officials are as follows:

#### **Management**

##### **Ronald L. Olson, City Manager**

Ronald L. Olson was appointed City Manager effective May 2, 2011, having previously worked in local government for more than 30 years. Prior to his appointment, Mr. Olson served as the County Administrator for Polk County, Iowa for four years. He also served as Deputy City Manager for the City of Arlington, Texas for three years; City Manager for the City of Middletown, Ohio for 12 years; and City Manager for the City of West Jordan, Utah, for four years. Mr. Olson holds a Bachelor of Science, Business Management and Political Science degree from Brigham Young University and a Master of Public Administration degree from Brigham Young University.

### **Troy Riggs, Assistant City Manager for Safety, Health, & Neighborhoods**

Troy Riggs began his career with the City after being selected as the Chief of Police in October 2009. During his tenure, Mr. Riggs restructured the police department, introduced intelligence-Led policing, established accountability methods, and involved citizens and employees in the decision-making process. Due to these changes, the police department enjoys a reputation for excellence. In November 2011, Mr. Riggs was appointed to the position of Assistant City Manager for Safety, Health & Neighborhoods. His responsibilities include overseeing the Police Department, Fire Department, Health Department, Animal Care, Neighborhood Improvement, Parks and Recreation, Libraries and the Marina. Mr. Riggs previously worked for the Jefferson County Government and the Louisville Metro Police Department. During his 20 years in Louisville, he served as a sworn member of the police force and also a member of the Judge/Executive's staff where he assisted with the day-to-day operations of government representing nearly 700,000 citizens. During his tenure on the Judge's staff, he was involved in working on the referendum that allowed Jefferson County and Louisville Governments to merge in 1998.

### **Toby Hammett Futrell, Interim Assistant City Manager for Business Support Services**

Toby Hammett Futrell was appointed Interim Assistant City Manager for Business Support Services in March 2012. She is responsible for the Development Services function, economic development, tourism, and downtown redevelopment initiatives, which includes oversight of the Corpus Christi Museum of Science and History, and the American Bank Center which is comprised of the City's Convention Center, Selena Auditorium, and Arena. Ms. Futrell has 32 years of experience in public administration. She spent 17 of those 32 years as an executive serving as Assistant City Manager, Deputy City Manager and ultimately as City Manager performing functions as diverse as parks, economic development, budget, finance, auditing, public works, utilities and public safety. She became City Manager of Austin, Texas, in December 2001, and served a seven-year tenure before retiring to Corpus Christi in 2008. Futrell earned a Master of Business Administration degree from Southwest Texas State University. She attended the University of Texas at Austin and earned a Bachelor's degree from St. Edward's University. Futrell taught for six years in the Master of Public Administration (MPA) Program at the University of Texas LBJ School before leaving Austin and most recently at the MPA Program through Texas A&M Corpus Christi University, as well as in the Texas State University's Certified Public Manager's Program.

### **Oscar R. Martinez, Assistant City Manager for Public Works, Utilities, & Transportation**

Oscar R. Martinez was appointed Assistant City Manager for Public Works & Utilities in December 2011, after serving as Assistant City Manager for Health, Safety & Neighborhoods since August 2011. As Assistant City Manager, he is responsible for overseeing the departments of Airport, Engineering (including capital projects), Environmental Services, Gas, Master Planning, Storm Water, Streets, Solid Waste Services, Wastewater and Water. Prior to that time, Mr. Martinez was appointed in October 2004 as Assistant City Manager for Administrative Services. Mr. Martinez previously served as Assistant Budget Director for the City of Corpus Christi in the mid-1980's. Prior to his most recent employment with the City of Corpus Christi, he served over 14 years in workforce development as President/Chief Executive Officer ("CEO") of Work-Force 1, President/CEO of Workforce Network, Inc., Director at the Greater Corpus Christi Business Alliance, and Vice President of Workforce Development Corporation. Mr. Martinez has also been a teacher for the Corpus Christi Independent School District as well as the Dallas Independent School District. Mr. Martinez has a Master of Arts degree in Public Administration from St. Mary's University in San Antonio, Texas and a Bachelor of Arts degree in Political Science/Business Administration from Texas A&I University in Kingsville, Texas. He has served on several Boards, including United Way, Committee on Educational Excellence, Corpus Christi Chamber of Commerce Education and Workforce Committee, Coastal Bend American Red Cross, Equality in Education Council, Corpus Christi Technical Education Advisory Council, and the Human Investment System Council.

### **Margie C. Rose, Assistant City Manager for Government & Operations Support**

Margie C. Rose was named Assistant City Manager for Government & Operations Support by the City Council effective June 2011. Prior to that time, Ms. Rose served as Interim City Manager and Assistant City Manager for Community Services, having previously worked in local government for more than 20 years.

In her prior positions, Ms. Rose served as Purchasing Director, Director of Administrative Services, Director of Department of Public Services, Assistant City Manager and City Manager for the City of Inkster, Michigan. She also served as Deputy Director of Parks for the County of Wayne, Michigan. Ms. Rose served on various

professional committees including the Michigan Municipal League Finance and Taxation Committee, International City/County Management Planning Committee and the Michigan City Management Workplace Diversity Committee. Ms. Rose received her Bachelor of Business Administration (Accounting) degree in 1984 and her Masters of Public Administration in 1991, both from Eastern Michigan University.

### **Constance P. Sanchez, CPA, CPM, Director of Financial Services**

Constance P. Sanchez was appointed Director of Financial Services in December 2011. Prior to that time, she served as Interim Director of Financial Services since September 2008. In her role as director, Ms. Sanchez is responsible for all areas of financial management, including financial reporting, accounting, budgeting, treasury, revenue and collections, purchasing, and the utility business office which includes billing, field services, and customer services for the City of Corpus Christi. Before that time, she was appointed Assistant City Auditor, Auditor, Chief Accountant, Assistant Director of Financial Services, and Deputy Director of Financial Services. Prior to her 20 years with the City, Ms. Sanchez was an auditor with KPMG Peat Marwick for three years. Ms. Sanchez is a member of the American Institute of Certified Public Accountants (AICPA), the Texas Society of Certified Public Accountants (TSCPA), and a member of the Government Finance Officers Association of Texas. Ms. Sanchez, a life-long citizen of Corpus Christi, was valedictorian of her high school class. She received an Associates of Arts degree in Business Administration from Del Mar College (graduating summa cum laude) and a Bachelor of Business Administration degree with a major in Accounting (graduating magna cum laude), from Corpus Christi State University. Ms. Sanchez is a Certified Public Accountant and a Certified Public Manager.

### **Certain Governmental Services Provided by the City**

**Public Safety** . . . The City provides police protection, fire protection, building inspection, street lighting and traffic signals, and civil defense. Law enforcement and civil defense is provided through the Police Department. The City's Fire Department operates 16 fire stations throughout the City and the Emergency Medical Service.

**Public Services** . . . In addition to operating its water, wastewater disposal, and gas systems, the City also provides garbage collection and disposal and maintenance of streets and storm drainage areas.

**Community Enrichment** . . . The City has a main library and five branches which are equipped with over 413,308 volumes. The City owns and maintains approximately 190 parks containing over 1,581 acres. The City also owns extensive recreational facilities including 131 playgrounds, a marina with 580 yacht basin slips, 4 municipal beaches, 2 public golf courses, 9 swimming pools, 37 tennis courts, 9 baseball and softball diamonds, 5 recreational centers, and 8 senior citizen centers. In addition, the City owns an auditorium, a coliseum, Harbor Playhouse, the Corpus Christi Museum, the Multicultural Center, the Water Garden, and a Community Convention facility.

**Airport and Transit System** . . . The City owns the Corpus Christi International Airport situated on 2,657 acres. The Regional Transportation Authority operates the regional transportation system which provides passenger bus and paratransit service within the area and seasonal services including a passenger ferry connecting several tourist attractions.

**Health** . . . The City maintains preventive health services through health facilities within the community.

The City does not have the responsibility of maintaining hospitals, a school system, or a higher education system, and does not expend any funds in providing welfare.

## **THE CITY'S FINANCIAL PROCEDURES**

### **Audit and Financial Reporting**

The Charter requires an annual audit to be made of the books of accounts, records, and transactions of the City by a Certified Public Accountant. The Fiscal Year of the City begins the first day of August of each year and ends with the thirty-first day of July of the following year. The Government Finance Officers Association of the United States (the "GFOA") first awarded the City its Certificate of Conformance, later termed the Certificate of Achievement for Excellence in Financial Reporting, for its annual financial report for 1957. The City was awarded the same recognition for its 1970, 1975, 1978, 1979, 1983, and 1984 through 2011 financial reports.

**Budget Procedures**

State laws and the Charter require the preparation and filing of an annual budget. The City Manager submits a proposed budget to the City Council at least sixty days prior to the beginning of the fiscal year which estimates revenues and expenses for the next year. The proposed expenditures will not exceed estimated revenues. The City Council shall adopt a balanced budget prior to the beginning of the fiscal year. If the City Council fails to adopt a budget by the beginning of the fiscal year, the amounts appropriated for current operations for the current fiscal year are deemed the adopted budget for the ensuing fiscal year on a month-to-month basis until such time as the City Council adopts a budget for the ensuing year.

**Significant Accounting Policies**

The City prepares its financial statements in accordance with the generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. A summary of significant accounting policies of the City are set out in the Notes to Financial Statements for the fiscal year ended July 31, 2011 set forth in "CERTAIN AUDITED FINANCIAL STATEMENTS" attached hereto as Appendix B.

**Population**

The 2010 United States Census population for the City is 305,215 which is approximately 10% greater than the population reported in 2000. The table shows the history of population from 1920 to 2010:

*[The remainder of this page intentionally left blank.]*

<b>Population</b> <b>United States Census Figures for 1920 - 2010</b>	<b>Percent of Increase Over</b> <b>Preceding Census</b>
1920..... 10,522	27%
1930..... 27,541	162%
1940..... 57,301	108%
1950..... 108,053	89%
1960..... 167,690	55%
1970..... 204,525	22%
1980..... 232,134	13%
1990..... 257,543	11%
2000..... 277,454	8%
2010..... 305,215	10%

Corpus Christi Standard Metropolitan Statistical Area (“SMSA”) consists of Nueces and San Patricio Counties, and, according to the 2000 United States Census, had a population of 380,783. It is estimated that the population in the SMSA will exceed 403,000 in the next ten years.

**Trade Area and Location**

The City’s trade area consists of five counties, Nueces, San Patricio, Aransas, Jim Wells, and Kleberg. Each of the counties maintains a solid and diversified economic base which contributes material support to the City due to its location as a trade center and shipping point.

The land is generally flat with strong mineral deposits, rich soil, excellent climate, and a growing season of approximately 300 days. Grain sorghum and cotton are the principal agricultural crops. The region also has a strong supply of livestock including beef, dairy cattle, hogs, and poultry.

The oil and gas industry is a major factor in the growth and economic stability within the trade area. Mineral values vary depending on world market and demand. This industry also provides a secondary market for petro by-products and chemicals.

The trade area’s principal outlet for agricultural and petroleum products is Port Corpus Christi (the “Port”), which has served the area for over seventy years. The Port is the sixth largest port in the United States with more than 125 acres of open storage and fabrication sites and more than 295,000 square feet of covered dockside storage.

The City has one of the most strategically located waterways in the Southwest, with deep water transportation to the Gulf of Mexico and barge traffic all along the Texas Coast via the Intracoastal waterway. The nearest other port is in Brownsville, 160 miles to the south; nearest retail and wholesale outlet is San Antonio, 145 miles to the northwest; and the nearest heavy industry competition is Houston, 210 miles to the northeast.

**Business**

The City continues to grow as a regional center for a 12-county area. Major renovations to the City’s retail mall “La Palmera” were completed in 2010 which has attracted many new retail outlets to its location. The \$50 million upgrade project includes 18,000 square foot expansion of a major department store, an aquatic-themed food court with a 4,400 gallon aquarium, outdoor mall area, fountains and a children’s play area.

Other developments include the construction of a 2.5-acre water park next to Whataburger Field. This water park will include racing slides, a lazy river, a children’s pool and concession areas. It is scheduled to open in April 2012. Additionally, negotiations are underway with Schlitterbahn for the creation of a water park and resort on Padre island. Early designs for the approximately \$35 million Padre Island resort include a 12-hole golf course, lodging, restaurants and a 12-acre water park with a meandering river and a retractable roof so it could be used throughout the year. It could open as early as the summer of 2013.

The Eagle Ford Shale oil and gas formation is employing many of the City's residents. Both offshore rig fabricators, Kiewit and Gulf Marine, have increased orders due to the lifting of the offshore drilling moratorium, which should add a combined 1,000 workers to the workforce.

The M&G Group, one of the world's largest producers of PET for packing applications, announced that they have selected the City as the site of their \$900 million plastics factory. In addition, the Tainjin Pipe Group Corp ("TPCO") Texas Mill recently broke ground on their \$1 billion pipe manufacturing facility. This project demonstrates the region's ability to compete and win world-class projects in difficult times, as the region's selections (announced in January 2009) was made after evaluating more than thirty other regions in the United States. TPCO's site selection near Gregory-Portland represents the largest foreign direct investment ever by a Chinese company in United States' history and will add 300-600 high-paying jobs to the Corpus Christi area.

Several major projects are in various stages of planning or construction in the downtown area. Phase one of the Bayfront Development project has recently been completed and is expected to revitalize downtown and attract business and tourism to the downtown/bayfront area. The next phase is currently in the design phase and is expected to create an additional investment of \$13 million in the downtown area. These projects are relocating traffic lanes inland to create large green spaces between the water and traffic for community events and recreation activities. In addition, the demolition of Memorial Coliseum opens the way for new development at "Destination Bayfront." Moreover, the City utilized proceeds from certificates of obligation to upgrade the Convention Center and Selena Auditorium. The Convention Center facilities have received minimal maintenance since the expansion was completed in 2004 and the Selena Auditorium has had limited maintenance since its original construction in 1977. This project continues the necessary repairs and upgrades required to attract premier performers, meet the needs of stage shows who would like to use the auditorium, and provide a top-quality venue for conventions and visitors.

Texas A&M University – Corpus Christi ("TAMU-CC") is developing plans for expansion. In 2008, the City donated 137 acres of land to the University for this expansion. Additionally in November 2008, the City Council approved a resolution supporting an agreement between the Corpus Christi Business and Job Development Corporation and TAMU-CC for development of facilities for a Bachelor of Science in Mechanical Engineering Program that already has 175 students enrolled.

In fiscal year 2010-2011, the City Council approved a resolution supporting another agreement with TAMU-CC for the development of an "Innovation Center" which serves as a business incubator. The City Council also approved several resolutions supporting agreements between the Corpus Christi Business and Job Development Corporation and Del Mar College including a Northwest Learning Center that will house its health sciences department and will expand its reach to the west side of the City; an agreement with Del Mar College to help expand its aviation maintenance program to a hangar at the Corpus Christi International Airport; and an agreement with the Del Mar College Small Business Development Center's Procurement Technical Assistance Center to hire staff to help small businesses compete for government supply contracts. Other major business initiatives include the execution of a contract with Commercial Metals Company ("CMC"), a metal recycling company that is expanding its presence in the City; execution of a contract with Craft Training Center to enable the company (along with a match from industry partners) to expand its training facility to almost double its number of students for area jobs.

In November 2011 the City was ranked fifth in the nation by the Center for Digital Governments among those with a population class of 250,000 and greater. In 2010 the City was designated as a "Citizen-Engaged Community" by the Public Technology Institute ("PTI"). Additionally, PTI and the Alfred P. Sloan Foundation recognized the City as one of 17 cities, county, and state governments that are United States leaders in the innovative application of Web 2.0 technologies and civic/social media tools used to achieve impressive results in citizen engagement, government accountability, and operational efficiencies.

In January 2012, the Corpus Christi Museum of Science and History again achieved accreditation by the American Association of Museums ("AAM"), the highest national recognition afforded the nation's museums. Accreditation signifies excellence to the museum community, to governments, funders, outside agencies, and to the museum-going public. The Corpus Christi Museum of Science and History was initially accredited in 1973. All museums must undergo a reaccreditation review at least every 10 years to maintain accredited status.



In February 2010, the City was first awarded the gold designation in the Texas Comptroller Leadership Circle program which recognizes local governments across Texas that meet a high standard for financial transparency online. This gold designation was again achieved in 2011. Additionally, the Government Finance Officers Association (“GFOA”) awarded a Certificate of Achievement for Excellence in Financial reporting to the City for its comprehensive annual financial report (“CAFR”) for the fiscal year ended July 31, 2010, continuing to confirm compliance with both Generally Accepted Accounting Principles (“GAAP”) and legal requirements. This was the twenty-eighth consecutive year that the City has received this prestigious award.

The City also received the GFOA’s Distinguished Budget Presentation Award for its annual budget document for the fiscal year beginning August 1, 2010. The City has received twenty-one of these awards. In order to qualify for the Distinguished Budget Presentation Award, the government’s budget document was judged to be proficient as a policy document, a financial plan, an operations guide, and a communications device.

## **Industry**

Corpus Christi industry provides a diversified product market including metal fabrication, chemical processing, farm and ranch equipment, oil field equipment, cement, food processing, electronic, petrochemical products, fishing and seafood products, and more. The diversification is primarily due to the commitment of City leadership.

The trade area’s principal outlet for agricultural and petroleum products is the Port of Corpus Christi (the “Port”), which opened to world markets in 1926. It is located along the southeastern coast of Texas on the Gulf of Mexico approximately 150 miles north of the Mexican border. The Port’s channel stretches over 30 miles and links the Corpus Christi Bay with the Gulf of Mexico. It is currently ranked as the fifth largest port in the United States and handled a volume of 82.2 million tons of cargo during the 2010 calendar year, an increase of 7.5% from the prior year. The Port has many initiatives underway, including the La Quinta Trade Gateway and wind power initiatives described below.

### **La Quinta Trade Gateway Terminal Project**

The La Quinta Trade Gateway Terminal Project is a major component of the Port’s long-term development plan. This 1,100-acre site will serve as a multi-purpose dock and terminal facility to handle a wide variety of general cargo including containers, military, wind turbines, steel pipe, and more. Completion of preliminary engineering for full build out and final design for the initial 800 foot to 1,000 foot dock will provide the necessary information to define costs and determine completion schedules. The goal is to complete the design and be ready to solicit bids for the first phase of construction by early 2012.

### **Wind Energy Project**

A second initiative undertaken by the Port relates to wind power. The Port has many strengths, including access, location, and competitive pricing, that have attracted a steady stream of wind turbine shippers to the Port. Serving the industry not only as a shipping hub for wind turbines, the Port is also looking at the potential of harnessing South Texas winds at Port-owned sites to generate clean electrical power for the local community. The Harbor Wind Farm on the north side of the Inner Harbor along Nueces Bay is currently under development. When completed in early 2012, the \$20,000,000 Harbor Wind Farm will consist of six 1.5 MW turbines and will be the first wind farm located on industrial port property in North America.

### **Tourism and Convention Business**

The City continues to be a popular vacation spot for visitors and is the fifth most popular tourist destination in Texas according to the Office of the Governor’s Economic Development and Tourism Division. The number one reason visitors visit the area has historically been the enjoyment of beaches along Mustang and Padre Islands, the longest barrier island in nature fronting on the Gulf of Mexico. The opposite side of the barrier provides a shoreline for Corpus Christi Bay, Laguna Madre, and the various bays and bayous north of the Coastal Bend which is well suited for outdoor recreation.

Tourist facilities located within the City include: a multi-purpose arena at the American Bank Center, Whataburger Field which houses the Corpus Christi Hooks, a AA major league affiliate baseball team, the Texas State Aquarium, the USS Lexington Museum, the Museum of Science and History, the South Texas Art Museum, the Multicultural

Center/Heritage Park complex, and the Concrete Street Amphitheater. The Corpus Christi area is also a renowned location for water sports, including windsurfing and kiteboarding, and serves as host to the annual U.S. Open Windsurfing Regatta, international power and sail boat races, and the Texas International Boat Show.

### **Corpus Christi Marina**

The Corpus Christi Marina is the largest municipal marina in Texas with the deepest water. It has 600 boat slips that are 72% occupied. Approximately 1,000 vessels visit the marina annually. In 2007, \$13 million in improvements were completed to make it an environmental leader and a state-of-the-art facility. In 2009, the Marina Association of Texas awarded Texas' Marina of the Year to the City of Corpus Christi Marina. It also holds the Texas Clean Marina Award (2009) and the National Clean Marina Award (2009). In 2011, the Marina was designated by the National Marina Manufacturers Association as one of the "Ten Hot Spots Marina in the United States".

In September 2009, the City's award winning Marina hosted the Corpus Christi Open Water Festival, which hosted 500 swimmers (including 14 Olympic gold medalists). Marina Market Days are held the first Saturday of each month, featuring arts, crafts, food, and live music.

### **International Flavor**

The City is a member of Sister Cities International. Through Sister Cities International, the City has established affiliations with Keelung, Taiwan; Veracruz, Mexico; Yokosuka, Japan; Agen, France; and Toledo, Spain. The City and nearby neighbor, Monterrey, Mexico, have established a Partner in Trade affiliation that emphasizes business and cultural opportunities for cooperative ventures.

Yokosuka, Japan sends up and coming city employees to Corpus Christi for overseas' training in public service and an exchange that teaches the different facets of volunteerism in Japan. In addition to establishing a "Partner in Trade" with Monterrey, the City has established closer ties with cousins in 23 countries including Austria, Belgium, France, Spain, Italy, and others.

### **Proximity to San Antonio**

The City continues to benefit from tourist attractions in San Antonio. San Antonio is located 2.5 hours by automobile north of Corpus Christi with easy access by Interstate 37, and the City is favorably viewed as an attractive one-day trip by San Antonio visitors. With the City's growing list of attractions, which include the Texas State Aquarium, the U.S.S. Lexington Museum on the Bay, and the Las Carabelas Columbus ship exhibit, visitors may be tempted to stay a little longer.

### **Foreign Trade Zone**

The Port of Corpus Christi Authority operates one of the largest Foreign-Trade Zones ("FTZ") in the United States. The Zone includes an Industrial Park near the Airport, two full-service public warehouses near the Airport, all Port properties (7,000) acres that are available for storage and/or industrial activity, three bulk fuel terminals, six refinery subzones, two metal fabrication (offshore oil platforms and towers) subzones, and two minerals processing subzones. The Port's FTZ department is a full-service Grantee assisting clients with applications, FTZ training, interpretation of Customs regulations, and interface with Customs officials.

### **Corpus Christi Enterprise Zone**

The City has a State of Texas approved Enterprise Zone to assist in economic development activities. The Enterprise Zone contains approximately 14 square miles. In the 8-year existence of the Enterprise Zone, over \$2.5 billion of State of Texas approved Enterprise Zones projects have begun within the Enterprise Zone. While numerous State benefits for companies locating in the Enterprise Zone are available, the City also provides incentives for companies locating within the Enterprise Zone.

### **Private Utilities**

Telecommunications and electrical service are available from several providers.

## Construction

The Table below indicates the amount of new construction activity in Corpus Christi and the number of permits issued for all purposes.

<b>Year</b>	<b>Building Permits Number of Permits</b>	<b>Value</b>
2001-2002	5,207	154,763,863
2002-2003	7,854	333,016,517 <sup>(1)</sup>
2003-2004	7,111	295,984,882
2004-2005	5,781	387,122,472
2005-2006	5,989	450,750,242
2006-2007	5,699	503,027,247
2007-2008	5,118	343,865,608
2008-2009	4,022	286,139,536
2009-2010	4,052	260,412,022
2010-2011	5,447	376,894,414

<sup>(1)</sup> Based upon the construction of several large commercial projects, including shopping malls.

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## Employment

The following table indicates the total civilian employment in the Corpus Christi MSA for the period December 2011 as compared to the prior periods of November 2011 and December 2010:

	<u>December 2011*</u>	<u>November 2011</u>	<u>December 2010</u>
Civilian Labor Force	220,632	220,002	214,261
Unemployment	15,148	15,516	17,553
Percent Unemployment	6.9%	7.1%	8.2%
Total Employment	205,484	204,486	196,708

\* Preliminary

The following table shows certain nonagricultural wage and salary employment in the Corpus Christi MSA for the period December 2011 as compared to the prior periods of November 2011 and December 2010:

	<u>December 2011</u>	<u>November 2011</u>	<u>December 2010</u>
Mining, Logging, & Construction	20,800	20,900	20,000
Manufacturing	9,500	9,500	9,300
Trade, Transportation, & Utilities	36,000	35,400	31,900
Information	1,800	1,800	2,100
Financial Activities	7,400	7,400	7,200
Professional & Business Services	15,400	15,500	15,200
Education & Health Services	31,900	31,900	31,100
Leisure & Hospitality	23,400	23,400	20,500
Other Services	7,000	7,000	6,800
Government	<u>34,800</u>	<u>34,900</u>	<u>36,100</u>
Total	188,000	187,700	180,200

Source: Texas Workforce Commission, Labor Market Review, April 2011.

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**APPENDIX C**

The information contained in this appendix consists of certain audited  
**FINANCIAL STATEMENTS OF THE CITY OF CORPUS CHRISTI, TEXAS**

FOR THE FISCAL YEAR ENDED JULY 31, 2011

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**APPENDIX D**

**FORM OF OPINION OF BOND COUNSEL**



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