

**OFFICIAL STATEMENT DATED OCTOBER 10, 2018**

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW, AND INTEREST ON BONDS IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS. SEE "TAX MATTERS" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

THE BONDS HAVE **NOT** BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

**NEW ISSUE-Book-Entry Only**

Insured Rating (AGM): S&P "AA" (stable outlook)  
 Moody's "A2" (stable outlook)  
 Underlying Rating: Moody's "Baa3"  
 See "MUNICIPAL BOND RATING" and "MUNICIPAL BOND INSURANCE" herein.

**\$7,985,000**

**GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 56  
 (A political subdivision of the State of Texas located within Galveston County)  
 UNLIMITED TAX BONDS  
 SERIES 2018**

The bonds described above (the "Bonds") are obligations solely of Galveston County Municipal Utility District No. 56 (the "District") and are not obligations of the State of Texas, Galveston County, the City of Texas City or any entity other than the District.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District. THE BONDS ARE SUBJECT TO INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS."

**Dated Date: October 15, 2018**

**Due: December 1, as shown below**

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar") upon surrender of the Bonds for payment. Interest on the Bonds accrues from October 15, 2018, and is payable each June 1 and December 1, commencing June 1, 2019, until maturity or prior redemption. The Bonds will be issued only in fully registered form. The Bonds will be issued in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the Registered Owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM."



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY MUNICIPAL CORP.** See "MUNICIPAL BOND INSURANCE" herein.

**MATURITY SCHEDULE**

Principal Amount	Maturity (December 1)	CUSIP Number(b)	Interest Rate	Initial Reoffering Yield(c)	Principal Amount	Maturity (December 1)	CUSIP Number(b)	Interest Rate	Initial Reoffering Yield(c)
\$ 185,000	2020	36423G BB2	5.00 %	2.40 %	240,000	2026 (a)	36423G BH9	4.00 %	3.20 %
195,000	2021	36423G BC0	5.00	2.55	250,000	2027 (a)	36423G BJ5	4.00	3.35
200,000	2022	36423G BD8	5.00	2.70	260,000	2028 (a)	36423G BK2	4.00	3.50
210,000	2023	36423G BE6	5.00	2.85	270,000	2029 (a)	36423G BL0	4.00	3.65
220,000	2024	36423G BF3	5.00	3.00	280,000	2030 (a)	36423G BM8	4.00	3.75
230,000	2025 (a)	36423G BG1	4.00	3.10	295,000	2031 (a)	36423G BN6	4.00	3.85
\$625,000	Term Bonds due December 1, 2033 (a), 36423G BQ9 (b), 4.000% Interest Rate, 4.00% Yield (c)								
\$675,000	Term Bonds due December 1, 2035 (a), 36423G BS5 (b), 4.000% Interest Rate, 4.07% Yield (c)								
\$735,000	Term Bonds due December 1, 2037 (a), 36423G BU0 (b), 4.000% Interest Rate, 4.12% Yield (c)								
\$800,000	Term Bonds due December 1, 2039 (a), 36423G BW6 (b), 4.000% Interest Rate, 4.16% Yield (c)								
\$1,335,000	Term Bonds due December 1, 2042 (a), 36423G BZ9 (b), 4.000% Interest Rate, 4.19% Yield (c)								
\$980,000	Term Bonds due December 1, 2044 (a), 36423G CB1 (b), 4.125% Interest Rate, 4.23% Yield (c)								

- (a) Bonds maturing on or after December 1, 2025, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on December 1, 2024, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent Interest Payment Date (as herein defined) to the date fixed for redemption. The Term Bonds (as defined herein) are also subject to mandatory sinking fund redemption as more fully described herein. See "THE BONDS—Redemption Provisions."
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Initial yield represents the initial offering yield to the public, which has been established by the Underwriter (as herein defined) for offers to the public and which subsequently may be changed.

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the respective Underwriter, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. See "LEGAL MATTERS." Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about October 30, 2018.

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## USE OF INFORMATION IN OFFICIAL STATEMENT

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 District.

This OFFICIAL STATEMENT is not to be used in 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.

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, engineering and other related reports set forth in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027, for further information.

This OFFICIAL STATEMENT contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. 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 District or other matters described herein since the date hereof. However, the District has agreed to keep this OFFICIAL STATEMENT current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information actually comes to its attention, the other matters described in this OFFICIAL STATEMENT until delivery of the Bonds to the Underwriter (as herein defined) and thereafter only as specified in "PREPARATION OF OFFICIAL STATEMENT—Updating the Official Statement."

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this OFFICIAL STATEMENT or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "MUNICIPAL BOND INSURANCE" and "APPENDIX B—Specimen Municipal Bond Insurance Policy."

## SALE AND DISTRIBUTION OF THE BONDS

### **Award of the Bonds**

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by SAMCO Capital Markets, Inc. (the "Underwriter") bearing the interest rates shown on the cover page hereof, at a price of 97.00% of the par value thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 4.241774%, as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended (the IBA method).

### **Prices and Marketability**

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Underwriter may over allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of utility district bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market.

### **Securities Laws**

No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

## OFFICIAL STATEMENT SUMMARY

The following is a brief summary of certain information contained herein which is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this OFFICIAL STATEMENT. The summary should not be detached and should be used in conjunction with more complete information contained herein. A full review should be made of the entire OFFICIAL STATEMENT and of the documents summarized or described therein.

### HURRICANE HARVEY

*General...*

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced three storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015. The most recent event was Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days.

*Impact on the District...*

According to Jones & Carter Inc. (the “Engineer”), water and wastewater service to the District was not interrupted during the storm event. Further, according to MREC LT Lago Mar Operating LLC (“MREC”) and LGI Homes Texas LLC (“LGI LLC”), no homes within the District experienced structural flooding or other material damage.

If a future weather event significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase the District’s tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected. See “INVESTMENT CONSIDERATIONS—Hurricane Harvey.”

### THE DISTRICT

*Description...*

The District is a political subdivision of the State of Texas created by an order of the Texas Commission on Environmental Quality (the “TCEQ”) on February 21, 2007 and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District recently annexed 383 acres and currently consists of approximately 1,016 acres of land. See “THE DISTRICT.”

*Location...*

The District is located approximately 30 miles southeast of the central downtown business district of the City of Houston and lies wholly within the corporate limits of the City of Texas City. The District is bordered on the east by Interstate Highway 45 and on the north by undeveloped acreages. It is located approximately one and one-half miles northwest of the intersection of Interstate Highway 45 and the Emmett F. Lowery Expressway on the west side of Interstate Highway 45. See “THE DISTRICT—Description and Location” and “AERIAL LOCATION MAP.”

*The Developers...*

LT Lago Mar Operating LLC (“MREC”) is a Texas limited liability company and the owner/developer of approximately 819 acres in the District. MREC is a single-purpose entity formed for the sole purpose of developing the land it owns within the District. MREC is owned by MRECV LT Lago Mar LLC and a profits interest is owned by Land Tejas Lago Mar LLC (“Land Tejas”) which manages the development of the land. To date, MREC has developed 541 single-family residential lots on approximately 153 acres. In addition, utilities for approximately 240 single-family residential lots on approximately 62 acres are under construction with an expected completion date by the first quarter of 2019 and continues to own approximately 374 undeveloped but developable acres and approximately 230 acres that are not developable. Approximately 78 acres of undeveloped land in the District served with utilities for commercial use are owned by MREC LT Lago Mar Investments, LLC, a Texas limited liability company.

LGI LLC is the owner/developer of approximately 119 acres being developed as Seacrest, a single-family residential community in the District. LGI LLC is a wholly owned subsidiary of LGI, Inc. a public company traded on NASDAQ under the ticker symbol of “LGIH.” To date, LGI LLC has developed 281 single-family residential lots on approximately 76 acres. In addition, utilities for approximately 62 single-family residential lots on approximately 23 acres are under construction with an expected completion date in the first quarter of 2019 and continues to own approximately 20 undeveloped but developable acres. See “THE DEVELOPERS,” “TAX DATA—Principal Taxpayers,” and “INVESTMENT CONSIDERATIONS—Dependence on Principal Taxpayers.”

MREC and LGI LLC are collectively referred to herein as the “Developers.”

*Status of Development...*

The District is being developed as the single family residential communities of Lago Mar and Seacrest. The development in the District currently includes 822 single-family residential lots on approximately 229 acres. In addition, utilities for approximately 302 lots on approximately 85 acres are under construction with an expected completion date in the first quarter of 2019. According to the Engineer and the Developer, as of July 31, 2018, 305 homes were completed (257 occupied, 39 unoccupied and 9 model homes), 132 homes were under construction and 385 vacant developed lots were available for home construction. Home sales prices in the District range from approximately \$225,000 to \$275,000. The estimated population in the District based upon 3.5 persons per occupied single family residence is 900.

Approximately 78 acres have been served with utilities, but no vertical construction has commenced. Further, approximately 394 developable acres have not been provided with water, wastewater and drainage facilities and approximately 230 acres are not developable (easements, recreation and utility sites). Recreational facilities for residents of the District include a pool, a 3,000 square foot club house with workout facilities, a kitchen, a business center and a playground.

*Homebuilding...*

Homes are being built in Lago Mar by Westin Homes, Gehan Homes, DR Horton Texas, Saratoga Homes, Castlerock Homes, Censeo Homes, Long Lake Ltd. and Anglia Homes. LGI LLC is the sole homebuilder in Seacrest. See “THE DISTRICT—Homebuilding.”

*Water and Wastewater...*

Water supply and wastewater treatment for the District is provided by the City of Texas City and all revenues from the collection of charges for water and sewer services are paid directly to the City of Texas City. See “THE SYSTEM.”

*Payment Record...*

The District has previously issued \$4,800,000 principal amount of unlimited tax road bonds for road facilities in one series, all of which remains outstanding (the “Outstanding Bonds”) as of the date hereof. The Bonds are the District’s first issuance of unlimited tax bonds for water, wastewater and drainage facilities. The District has never defaulted on its debt obligations. The District capitalized twenty-four (24) months of interest from proceeds of the Series 2017 Road Bonds in November 2017 and twenty-four (24) months of interest will be capitalized from Bond proceeds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

*Short Term Debt...*

The District issued a \$4,100,000 Bond Anticipation Note, Series 2017A (the “BAN”) on December 22, 2017, with a maturity date of December 21, 2018. The District will use Bond proceeds to redeem the BAN prior to maturity. See “USE AND DISTRIBUTION OF BOND PROCEEDS” and “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Short Term Debt.”

*Future Debt...*

The District has authorized preparation of a bond application to the Texas Commission on Environmental Quality (the “TCEQ”) requesting authorization to issue approximately \$10,000,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities. The District anticipates issuance of such bonds in 2019. See “THE BONDS—Issuance of Additional Debt” and “INVESTMENT CONSIDERATIONS—Future Debt.”

## THE BONDS

<i>Description...</i>	The \$7,985,000 Unlimited Tax Bonds, Series 2018 (the “Bonds”) are being issued pursuant to a resolution authorizing the issuance of the Bonds (the “Bond Resolution”) adopted by the District’s Board of Directors (the “Board”) as fully registered bonds. The Bonds are scheduled to mature serially on December 1 in each of the years 2020 through 2031, both inclusive, and as term bonds on December 1 in each of the years 2033, 2035, 2037, 2039, 2042 and 2044 (the “Term Bonds”) in the principal amounts and paying interest at the rates shown on the cover page hereof. Interest on the Bonds accrues from October 15, 2018, and is payable June 1, 2019, and each December 1 and June 1 thereafter, until the earlier of maturity or redemption. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. See “THE BONDS.”
<i>Book-Entry-Only System...</i>	The Depository Trust Company (defined as “DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See “BOOK-ENTRY-ONLY SYSTEM.”
<i>Redemption...</i>	Bonds maturing on or after December 1, 2025 are subject to redemption in whole, or from time to time in part, at the option of the District prior to their maturity dates on December 1, 2024, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS—Redemption Provisions.”
<i>Use of Proceeds...</i>	Proceeds of the Bonds will be used to redeem the BAN prior to maturity and pay for the construction costs and fees shown herein under “USE AND DISTRIBUTION OF BOND PROCEEDS.” In addition, Bond proceeds will be used to capitalize twenty-four (24) months of interest on the Bonds; pay interest on funds advanced by MREC and LGI LLC on behalf of the District; and pay administrative costs and certain other costs and engineering fees related to the issuance of the Bonds and creation of the District.
<i>Authority for Issuance...</i>	The Bonds are the first series of bonds issued out of \$138,970,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of acquiring or constructing water, wastewater and drainage facilities and for refunding of such bonds. The Bonds are issued by the District pursuant to an order of the TCEQ, the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See “THE BONDS—Authority for Issuance—Issuance of Additional Debt” and “INVESTMENT CONSIDERATIONS—Future Debt.”
<i>Source of Payment...</i>	Principal of and interest on the Bonds and the Outstanding Bonds are payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District. The Bonds are obligations of the District and are not obligations of the City of Texas City, Galveston County, the State of Texas or any entity other than the District. See “THE BONDS—Source of Payment.”
<i>Municipal Bond Rating and Municipal Bond Insurance...</i>	It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) and Moody’s Investors Service, Inc. (Moody’s) will assign municipal bond ratings of “AA” (stable outlook) and “A2” (stable outlook), respectively, to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. (“AGM” or the “Insurer”). Moody’s has also assigned an underlying rating of “Baa3” to the Bonds. An explanation of their ratings may be obtained from S&P or Moody’s. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE” and “APPENDIX B.”
<i>Not Qualified Tax-Exempt Obligations...</i>	The Bonds are <b>not</b> “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.

<i>Bond Counsel...</i>	Allen Boone Humphries Robinson LLP, Houston, Texas. See “MANAGEMENT OF THE DISTRICT,” “LEGAL MATTERS” and “TAX MATTERS.”
<i>Financial Advisor...</i>	Masterson Advisors LLC, Houston, Texas. See “MANAGEMENT OF THE DISTRICT.”
<i>Disclosure Counsel...</i>	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
<i>Paying Agent/Registrar...</i>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “THE BONDS—Method of Payment of Principal and Interest.”

### **INVESTMENT CONSIDERATIONS**

The purchase and ownership of the Bonds are subject to special investment considerations and all prospective purchasers are urged to examine carefully this entire OFFICIAL STATEMENT with respect to the investment security of the Bonds, including particularly the section captioned “INVESTMENT CONSIDERATIONS.”



## SELECTED FINANCIAL INFORMATION (UNAUDITED)

2018 Certified Taxable Assessed Valuation.....	\$ 96,353,684	(a)
Estimated Taxable Assessed Valuation as of June 1, 2018 .....	\$121,266,562	(b)
Gross Direct Debt Outstanding .....	\$12,785,000	(c)
Estimated Overlapping Debt .....	<u>3,226,306</u>	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	<u>\$16,011,306</u>	
Ratios of Gross Direct Debt to:		
2018 Certified Taxable Assessed Valuation .....	13.27%	
Estimated Taxable Assessed Valuation as of June 1, 2018 .....	10.54%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2018 Certified Taxable Assessed Valuation.....	16.62%	
Estimated Taxable Assessed Valuation as of June 1, 2018 .....	13.20%	
Debt Service Funds Available:		
Road Debt Service Fund Balance as of September 19, 2018 .....	\$ 251,013	(e)
Water, Sewer & Drainage Capitalized Interest (Twenty-Four Months) .....	<u>661,450</u>	(f)
Total Debt Service Funds Available .....	<u>\$ 912,463</u>	
Operating Funds Available as of September 19, 2018 .....	\$202,193	(g)
Capital Projects Funds Available as of September 19, 2018.....	\$21,454	
2018 Debt Service Tax Rate.....	\$0.26	
2018 Maintenance Tax Rate.....	<u>0.74</u>	
2018 Total Tax Rate.....	\$1.00	
Average Annual Debt Service Requirement (2019-2044).....	\$799,022	(h)
Maximum Annual Debt Service Requirement (2042).....	\$832,225	(h)
Tax Rates Required to Pay Average Annual Debt Service (2019-2044) at a 95% Collection Rate		
Based upon 2018 Certified Taxable Assessed Valuation .....	\$0.88	(i)
Based upon Estimated Taxable Assessed Valuation as of June 1, 2018 .....	\$0.70	(i)
Tax Rates Required to Pay Maximum Annual Debt Service (2042) at a 95% Collection Rate		
Based upon 2018 Certified Taxable Assessed Valuation .....	\$0.91	(i)
Based upon Estimated Taxable Assessed Valuation as of June 1, 2018 .....	\$0.73	(i)
Status of Development as of July 31, 2018 (j):		
Total Developed Lots.....	822	
Completed Homes (257 occupied, 39 unoccupied and 9 model homes).....	305	
Homes Under Construction (46 under contract to homebuyer).....	132	
Lots Available for Construction .....	385	
Lots Under Construction .....	302	
Estimated Population .....	900	(k)

- (a) As certified by the Galveston Central Appraisal District (the "Appraisal District").
- (b) Provided by the Appraisal District for information purposes only. Such amount reflects the estimated value of land and improvements on June 1, 2018. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year and will be certified for the purpose of taxation on January 1, 2019 and certified in late summer of 2019. No taxes will be levied upon such amount until it is certified by the Appraisal District. See "TAXING PROCEDURES."
- (c) Includes the Bonds and the Outstanding Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds."
- (d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt."
- (e) Funds in the Road Debt Service Fund are available to pay debt service on the bonds issued for road facilities and are not available to pay debt service on the bonds for water, wastewater and drainage facilities (including the Bonds). Funds in the Water, Sewer and Drainage Debt Service Fund are available to pay debt service on the bonds issued for water, sewer and drainage facilities and are not available to pay debt service on bonds issued for road facilities.
- (f) The District will capitalize twenty-four (24) months of interest from Bond proceeds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."
- (g) Approximately \$72,171 have been expended from the Operating Fund for expenses related to engineering and miscellaneous expenses for preparation of the bond application. A portion of the bond proceeds will be expended to reimburse the Operating Fund.
- (h) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."
- (i) See "TAX DATA—Tax Adequacy for Debt Service" and "INVESTMENT CONSIDERATIONS—Possible Impact on District Tax Rates—Future Debt."
- (j) See "THE DISTRICT—Status of Development."
- (k) Based upon 3.5 persons per occupied single-family residence.

## OFFICIAL STATEMENT

### **GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 56** *(A political subdivision of the State of Texas located within Galveston County)*

**\$7,985,000**

### **UNLIMITED TAX BONDS SERIES 2018**

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Galveston County Municipal Utility District No. 56 (the "District") of its \$7,985,000 Unlimited Tax Bonds, Series 2018 (the "Bonds").

The Bonds are issued by the District pursuant to an order of the Texas Commission on Environmental Quality (the "TCEQ"), the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Resolution, certain other information about the District, MREC LT Lago Mar Operating LLC, a Texas limited liability company ("MREC"), LGI Homes, Inc. Texas, LLC, a limited liability company ("LGI LLC") and development activity in the District. MREC and LGI LLC are collectively referred to herein as the "Developers." All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

## THE BONDS

### **Description**

The Bonds will be dated and accrue interest from October 15, 2018, with interest payable each June 1 and December 1, beginning June 1, 2019 (the "Interest Payment Date"), and will mature on the dates and in the principal amounts and accrue interest at the rates shown on the cover page hereof. The Bonds are issued in fully registered form, in denominations of \$5,000 or any integral multiple of \$5,000. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

### **Method of Payment of Principal and Interest**

In the Bond Resolution, the Board has appointed The Bank of New York Mellon Trust Company, N.A., Dallas, Texas as the initial Paying Agent/Registrar for the Bonds. The principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America, which, on the date of payment, is legal tender for the payment of debts due the United States of America. In the event the book-entry system is discontinued, principal of the Bonds shall be payable upon presentation and surrender of the Bonds as they respectively become due and payable, at the principal payment office of the Paying Agent/Registrar in Dallas, Texas and interest on each Bond shall be payable by check payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the Registered Owner of record as of the close of business on the May 15 or November 15 immediately preceding each Interest Payment Date (defined herein as the "Record Date"), to the address of such Registered Owner as shown on the Paying Agent/Registrar's records (the "Register") or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners.

If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day, as defined in the Bond Resolution.

### **Source of Payment**

While the Bonds or any part of the principal thereof or interest thereon remains outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, in each year, a continuing direct annual ad valorem tax, without limit as to rate, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Bond Resolution, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose.

The Bonds are obligations of the District and are not the obligations of the State of Texas, Galveston County, the City, or any entity other than the District.

## **Funds**

In the Bond Resolution, the Water, Sewer & Drainage Debt Service Fund is created, and the proceeds from all taxes levied, assessed and collected for and on account of the Bonds authorized by the Bond Resolution shall be deposited, as collected, in such fund.

The District also maintains a Road Debt Service Fund that is not pledged to or available to pay principal and interest on bonds issued to finance water, sewer and drainage facilities (“Water, Sewer and Drainage Bonds”), including the Bonds. Funds in the Water, Sewer, and Drainage Debt Service Fund are not available to pay principal and interest on the Road Bonds.

Accrued interest on the Bonds and twenty-four (24) months of capitalized interest will be deposited into the Water, Sewer & Drainage Debt Service Fund upon receipt. The remaining proceeds of sale of the Bonds shall be deposited into the Capital Projects Fund, to be used for the purpose of reimbursing the Developers for certain construction costs and for paying the costs of issuance of the Bonds. Any monies remaining in the Capital Projects Fund after completion of construction of the entire water, wastewater, and drainage system will be used as described in the Bond Resolution or ultimately transferred to the Water, Sewer & Drainage Debt Service Fund. See “USE AND DISTRIBUTION OF BOND PROCEEDS” for a complete description of the use of Bond proceeds and the projects related thereto.

## **Redemption Provisions**

*Mandatory Redemption:* The Bonds maturing on December 1 in each of the years 2033, 2035, 2037, 2039, 2042 and 2044 (the “Term Bonds”) shall be redeemed, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (the “Mandatory Redemption Date”), on December 1 in each of the years and in the principal amounts set forth in the following schedule (with each such scheduled principal amount reduced, at the option of the District, by the principal amount as may have been previously redeemed through the exercise of the District’s reserved right of optional redemption, as provided under “Optional Redemption” below):

<b>\$625,000 Term Bonds Due December 1, 2033</b>		<b>\$675,000 Term Bonds Due December 1, 2035</b>		<b>\$735,000 Term Bonds Due December 1, 2037</b>	
<b>Mandatory Redemption Date</b>	<b>Principal Amount</b>	<b>Mandatory Redemption Date</b>	<b>Principal Amount</b>	<b>Mandatory Redemption Date</b>	<b>Principal Amount</b>
2032	\$ 305,000	2034	\$ 330,000	2036	\$ 360,000
2033 (maturity)	320,000	2035 (maturity)	345,000	2037 (maturity)	375,000

<b>\$800,000 Term Bonds Due December 1, 2039</b>		<b>\$1,335,000 Term Bonds Due December 1, 2042</b>		<b>\$980,000 Term Bonds Due December 1, 2044</b>	
<b>Mandatory Redemption Date</b>	<b>Principal Amount</b>	<b>Mandatory Redemption Date</b>	<b>Principal Amount</b>	<b>Mandatory Redemption Date</b>	<b>Principal Amount</b>
2038	\$ 390,000	2040	\$ 425,000	2043	\$ 480,000
2039 (maturity)	410,000	2041	445,000	2044 (maturity)	500,000
		2042 (maturity)	465,000		

On or before 30 days prior to each Mandatory Redemption Date set forth above, the Paying Agent/Registrar shall (i) determine the principal amount of such Term Bond that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select, by lot or other customary random method, the Term Bond or portions of the Term Bond of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided in the Bond Resolution. The principal amount of any Term Bond to be mandatorily redeemed on such Mandatory Redemption Date shall be reduced by the principal amount of such Term Bond which, by the 45th day prior to such Mandatory Redemption Date, either has been purchased in the open market and delivered or tendered for cancellation by or on behalf of the District to the Paying Agent/Registrar or optionally redeemed and which, in either case, has not previously been made the basis for a reduction under this sentence.

*Optional Redemption:* The District reserves the right, at its option, to redeem the Bonds maturing on or after December 1, 2025, prior to their scheduled maturities, in whole or in part, in integral multiples of \$5,000, on December 1, 2024, or on any date thereafter, at a price of par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If fewer than all of the Bonds are redeemed at any time, the particular maturities of Bonds to be redeemed shall be selected by the District. If less than all the Bonds of any maturity are redeemed at any time, the particular Bonds within a maturity to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary method of selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the Register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if less than all the Bonds outstanding are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

### **Authority for Issuance**

At bond elections held within the District, voters of the District have authorized the issuance of \$138,970,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, wastewater and drainage facilities and for the purpose of refunding such bonds. The Bonds are issued pursuant to such authorization. The TCEQ has approved the issuance of the Bonds subject to certain restrictions, including the use of Bond proceeds as summarized in "USE AND DISTRIBUTION OF BOND PROCEEDS."

The Bonds are issued by the District pursuant to an order of the TCEQ, the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, an election held within the District and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this OFFICIAL STATEMENT.

### **Registration and Transfer**

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Resolution.

In the event the Book-Entry-Only System should be discontinued, each Bond shall be transferable only upon the presentation and surrender of such Bond at the principal payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar has been directed by the District to authenticate and deliver in exchange therefor, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds. Each Bond delivered shall be entitled to the benefits and security of the Bond Resolution to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on a Record Date and ending the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

The District or the Paying Agent/Registrar may require the Registered Owner of any Bond 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 fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the District.

### **Lost, Stolen or Destroyed Bonds**

In the event the Book-Entry-Only System should be discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the Registered Owner and an indemnity bond, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Registered owners of lost, stolen or destroyed Bonds will be required to pay the District's costs to replace such Bond. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

### **Replacement of Paying Agent/Registrar**

Provision is made in the Bond Resolution for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a national or state banking institution, a corporation organized and doing business under the laws of the United States of America or of any State, authorized under such laws to exercise trust powers, and subject to supervision or examination by federal or state authority, to act as Paying Agent/Registrar for the Bonds.

### **Issuance of Additional Debt**

At bond elections held within the District on November 7, 2017, voters of the District authorized the issuance of \$138,970,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, wastewater and drainage facilities and for refunding such bonds, \$17,550,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing parks and recreational facilities and for refunding such bonds and \$56,615,000 principal amount of unlimited tax bonds for purchasing and constructing a roadway system and could authorize additional amounts. After the issuance of the Bonds, the District will have \$130,985,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, wastewater and drainage facilities authorized but unissued, all of the unlimited tax bonds authorized for parks and recreational facilities remain authorized but unissued, and \$51,815,000 principal amount of unlimited tax bonds for purchasing and constructing a roadway system authorized but unissued. The Bonds constitute the second issuance of bonds by the District. See "INVESTMENT CONSIDERATIONS—Future Debt."

The District has authorized the preparation of a bond application to the TCEQ requesting authorization to issue approximately \$10,000,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities. The District anticipates issuance of such bonds in 2019.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. The District voters have authorized \$17,550,000 principal amount of unlimited tax bonds for acquiring or constructing recreational facilities and refunding of such bonds, all of which remains authorized but unissued. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the park project and bonds by the TCEQ; and (b) approval of the bonds by the Attorney General of Texas. If the District issues park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. The City has consented to the issuance of park bonds by the District.

The District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue such bonds, the following actions would be required: (a) approval of a detailed fire plan by the TCEQ; (b) authorization of the detailed fire plan and bonds for such purpose by the qualified voters in the District; (c) approval of the bonds by the TCEQ; and (d) approval of bonds by the Attorney General of Texas. The Board has not considered preparing a fire plan or calling an election at this time for such purposes.

The Bond Resolution imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District. The District expects to issue additional bonds in order to reimburse the Developers for the cost of water, wastewater and drainage facilities, recreational facilities and roadways constructed within the District. Issuance of additional bonds could dilute the investment security for the Bonds.

### **Consolidation**

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets (such as cash and the utility system) and liabilities (such as the Bonds), with the assets and liabilities of districts with which it is consolidating. Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

### **Dissolution by the City of Texas City**

Under existing Texas law, because the District lies wholly within the corporate limits of the City, the District must conform to a City ordinance consenting to the creation of the District. In addition, the District may be dissolved by the City without the District's consent. If the District is dissolved, the City will assume the District's assets and obligations (including the Bonds). Dissolution of the District by the City is a policy matter within the discretion of the Mayor and City Council of the City, and therefore, the District makes no representation that dissolution will or will not occur and makes no representation of the City's financial capability to pay debt services on the Bonds if such dissolution were to occur.

### **Remedies in Event of Default**

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District. See "INVESTMENT CONSIDERATIONS—Registered Owners' Remedies and Bankruptcy Limitations."

### **Legal Investment and Eligibility to Secure Public Funds in Texas**

The following is quoted from Section 49.186 of the Texas Water Code, and is applicable to the District:

"(a) All bonds, notes, and other obligations issued by a district shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and for all interest and sinking funds and other public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic."

"(b) A district's bonds, notes, and other obligations are eligible and lawful security for all deposits of public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic, to the extent of the market value of the bonds, notes, and other obligations when accompanied by any unmatured interest coupons attached to them."

The Public Funds Collateral Act (Chapter 2257, Texas Government Code) also provides that bonds of the District (including the Bonds) are eligible as collateral for public funds.

No representation is made that the Bonds will be suitable for or acceptable to financial or public entities for investment or collateral purposes. No representation is made concerning other laws, rules, regulations, or investment criteria which might apply to or which might be utilized by any of such persons or entities to limit the acceptability or suitability of the Bonds for any of the foregoing purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds as to the suitability or acceptability of the Bonds for investment or collateral purposes.

## **Defeasance**

The Bond Resolution provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) of the Bonds or other obligations of the District payable from revenues or from ad valorem taxes or both, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to the investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and which mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds.

Upon such deposit as described above, such Bonds shall no longer be regarded as outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds 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.

There is no assurance that the current law will not be changed in the future in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds.

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

*The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof.*

The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the Registered Owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this OFFICIAL STATEMENT. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Direct Participants is on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds of each series, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“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 Bonds 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds 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 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District (or the Trustee on behalf thereof) 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, interest payments and redemption proceeds on the Bonds 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 District or Paying Agent, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest payments and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, 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 Bonds at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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



## USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were compiled by Jones & Carter, Inc., the District’s engineer (the “Engineer”), and were submitted to the TCEQ in the District’s Bond Application. Non-construction costs are based upon either contract amounts, or estimates of various costs by the Engineer and Masterson Advisors LLC (the “Financial Advisor”). The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and completion of certain agreed-upon procedures by the District’s auditor. The surplus funds may be expended for any lawful purpose for which surplus construction funds may be used, if approved by the TCEQ, where required.

### I. CONSTRUCTION COSTS

• Phase I Regional Lift Station and Force Main.....	\$	2,121,292
• Lift Station Land Cost.....		10,872
• Detention Land Cost.....		2,491,067
• Water Impact Fees.....		220,350
• Sanitary Sewer Impact Fees.....		340,850
• Engineering.....		326,506
<b>Total Construction Costs.....</b>	<b>\$</b>	<b>5,510,937 (a)</b>

### II. BOND ANTICIPATION NOTE COSTS

• Estimated Bond Anticipation Note Interest.....	\$	143,500
• Issuance Costs and Professional Fees.....		93,587
<b>Total Bond Anticipation Note Costs.....</b>	<b>\$</b>	<b>237,087</b>

### III. NON-CONSTRUCTION COSTS

• Underwriter's Discount (b).....	\$	239,550
• Capitalized Interest (b).....		661,450
• Operation and Creation Costs.....		299,753
• Developer Interest.....		402,577
<b>Total Non-Construction Costs.....</b>	<b>\$</b>	<b>1,603,330</b>

### IV. ISSUANCE COSTS AND FEES

• Issuance Costs and Professional Fees.....	\$	418,648
• Bond Application Report Costs.....		50,000
• State Regulatory Fees.....		27,948
• Contingency (b).....		137,050
<b>Total Issuance Costs and Fees.....</b>	<b>\$</b>	<b>633,646</b>

**TOTAL BOND ISSUE..... \$ 7,985,000**

- (a) The District issued a \$4,100,000 Bond Anticipation Note, Series 2017A (the “BAN”) on December 22, 2017, with a maturity date of December 21, 2018. The District will use Bond proceeds to redeem the BAN prior to maturity. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT—Short Term Debt.”
- (b) The TCEQ approved a maximum amount of Underwriter’s discount of 3.00% and a maximum amount of capitalized interest in the amount of \$798,500, which is equivalent to twenty-four (24) months of interest at 5.00%. Contingency represents the difference in the estimated and actual amount of capitalized interest.

## THE DISTRICT

### **General**

The District is a political subdivision of the State of Texas created by an order of the Texas Commission on Environmental Quality (the “TCEQ”) on February 21, 2007 and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 1,016 acres of land.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, if approved by the City, the TCEQ and the voters of the District. Additionally, the District may, subject to certain limitations, develop and finance park and recreational facilities and roads.

The TCEQ exercises continuing supervisory jurisdiction over the District. In order to obtain the consent for creation from the City, within which the District is located, the District is required to observe certain requirements of the City consent ordinance which: limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, and drainage facilities, park and recreational facilities and roads; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of District construction plans; and permit connections only to lots and commercial or multi-family reserves described in plats which have been approved by the Planning Commission of the City and recorded in the real property records. Construction and operation of the District’s system is subject to the regulatory jurisdiction of additional governmental agencies. See “THE SYSTEM—Regulation.”

### **Description and Location**

The District recently annexed 383 acres and currently consists of approximately 1,016 acres of land and is located approximately 30 miles southeast of the central downtown business district of the City of Houston and lies wholly within the corporate limits of the City. The District is bordered on the east by Interstate Highway 45 and on the north by undeveloped acreage within Galveston County Municipal Utility District No. 59. It is located approximately one and one-half miles northwest of the intersection of Interstate Highway 45 and the Emmett F. Lowry Expressway on the west side of Interstate Highway 45. See “AERIAL LOCATION MAP.”

**Land Use**

The District currently includes approximately 229 acres of single-family residential development (822 lots), approximately 85 acres where utility construction is underway (302 lots), approximately 394 developable acres that have not been provided with water distribution, wastewater collection and storm drainage facilities and approximately 230 acres of undevelopable land. Additionally, the District includes approximately 78 acres that have been served with utilities for commercial use but no vertical construction has commenced. The table below represents a detailed breakdown of the current acreage and development in the District.

<u>Single-Family Residential</u>	Approximate <u>Acres</u>	<u>Lots</u>
Lago Mar Pod 11:		
Section Five.....	19	80
Section Six .....	43	90
Section Seven A .....	12	65
Section Seven B .....	9	31
Lago Mar Pod 7:		
Section One .....	21	73
Section Two .....	10	51
Section Three .....	12	60
Section Four .....	4	16
Section Five.....	23	75
Lago Mar Pod 6:		
Section One (a).....	27	95
Section Two (a).....	35	145
Seacrest:		
Section One .....	32	113
Section Two .....	44	168
Section Three (b).....	<u>23</u>	<u>62</u>
Subtotal.....	314	1,124
<i>Future Development</i> .....	394	---
<i>Commercial</i> .....	78	---
<i>Undevelopable (c)</i> .....	<u>230</u>	<u>---</u>
Totals .....	1,016	1,124

- (a) Utilities for approximately 240 single-family residential lots on approximately 62 acres are under construction with an expected completion date by the first quarter of 2019.
- (b) Utilities for approximately 62 single-family residential lots on approximately 23 acres are under construction with an expected completion date in the first quarter of 2019.
- (c) Includes easements, right-of-way, drainage and utility sites.

**Status of Development**

The District is being developed as the single family residential communities of Lago Mar and Seacrest. The development in the District currently includes 822 single-family residential lots on approximately 229 acres. In addition, utilities for approximately 302 lots on approximately 85 acres are under construction with an expected completion date in the first quarter of 2019. According to the Engineer and the Developers, as of July 31, 2018, 305 homes were completed (257 occupied, 39 unoccupied and 9 model homes), 132 homes were under construction and 385 vacant developed lots were available for home construction. Home sales prices in the District range from approximately \$225,000 to \$275,000. The estimated population in the District based upon 3.5 persons per occupied single family residence is 900.

**Homebuilding**

Homes are being built in Lago Mar by Westin Homes, Gehan Homes, DR Horton Texas, Saratoga Homes, Castlerock Homes, Censeo Homes, Long Lake Ltd. and Anglia Homes. LGI LLC is the sole homebuilder in Seacrest.

## **Future Development**

Approximately 479 developable acres of land currently within the District (including approximately 85 acres where utilities are under construction for 302 lots) are not yet served with water distribution and supply, wastewater collection and treatment or storm drainage facilities. While the Developers anticipate future development of this acreage as business conditions warrant, there can be no assurances if and when any of such undeveloped land will ultimately be developed. The District anticipates issuing additional bonds to accomplish development of the District and, according to the Engineer, the authorized but unissued bonds should be adequate to complete development of the District. See “THE SYSTEM” and “INVESTMENT CONSIDERATIONS—Economic Factors and Interest Rates—Tax Collections Limitations and Foreclosure Remedies—Future Debt.”

## **THE DEVELOPERS**

### **Role of a Developer**

In general, the activities of a landowner or developer in a municipal utility district such as the District include designing the project, defining a marketing program and setting building schedules; securing necessary governmental approvals and permits for development; arranging for the construction of streets and the installation of utilities; and selling or leasing improved tracts or commercial reserves to other developer or third parties. While a developer is required by the TCEQ to pave streets in areas where utilities are to be financed by a district through a specified bond issue, a developer is under no obligation to a district to undertake development activities according to any particular plan or schedule. Furthermore, there is no restriction on a developer’s right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of a developer to perform in the above-described capacities may affect the ability of a district to collect sufficient taxes to pay debt service and retire bonds.

Prospective Bond purchasers should note that the prior real estate experience of the Developers should not be construed as an indication that further development within the District will occur, or that construction of taxable improvements upon property within the District will occur, or that marketing or leasing of taxable improvements constructed upon property within the District will be successful. See “INVESTMENT CONSIDERATIONS—Dependence on Principal Taxpayers.”

Neither MREC, LGI LLC, nor any other property owner is responsible for, liable for, or has made any commitment for payment of the Bonds or other obligations of the District. Neither MREC, LGI LLC, nor any other property owners have any legal commitment to the District or owners of the Bonds to continue development of land within the District and may sell or otherwise dispose of their property within the District, or any other assets, at any time. See “INVESTMENT CONSIDERATIONS—Developers/Property Owners Obligation to the District” and “—Dependence on Principal Taxpayers.”

### **MREC LT Lago Mar Operating LLC and Land Tejas Lago Mar, LLC**

LT Lago Mar Operating LLC (“MREC”) is a Texas limited liability company and the owner/developer of approximately 819 acres in the District. MREC is a single-purpose entity formed for the sole purpose of developing the land it owns within the District. MREC is owned by MRECV LT Lago Mar LLC and a profits interest is owned by Land Tejas Lago Mar LLC (“Land Tejas”) which manages the development of the land. To date, MREC has developed 541 single-family residential lots on approximately 153 acres. In addition, utilities for approximately 240 single-family residential lots on approximately 62 acres are under construction with an expected completion date by the first quarter of 2019 and continues to own approximately 374 undeveloped but developable acres and 230 acres that are not developable. Approximately 78 acres of undeveloped land in the District served with utilities for commercial use are owned by MREC LT Lago Mar Investments, LLC, a Texas limited liability company.

*Financial Information Concerning MREC and Land Tejas:* MREC is financing its development of Lago Mar within the District with \$36,000,000 of capital from Mountain Real Estate Capital (“Mountain”) and according to MREC, is in compliance with all covenants of such capital investment agreement as of the date hereof.

### **LGI Homes—Texas, LLC**

LGI Homes—Texas, LLC (“LGI LLC”) is the owner/developer of approximately 119 acres being developed as Seacrest, a single-family residential community in the District. LGI LLC is a wholly owned subsidiary of LGI, Inc. a public company traded on NASDAQ under the ticker symbol of “LGIH.” To date, LGI LLC has developed 281 single-family residential lots on approximately 76 acres. In addition, utilities for approximately 62 single-family residential lots on approximately 23 acres are under construction with an expected completion date in the first quarter of 2019 and continues to own approximately 20 undeveloped but developable acres.

LGI Development Financing: According to LGI LLC, there is no financing associated with the acquisition of the land or the development of the property; the acquisition and development costs are paid with cash from LGI, Inc.. LGI, Inc. files annual, quarterly and current reports, proxy statements and other information with the SEC. LGI, Inc.'s SEC filings are available to the public over the internet at the SEC's website at <http://www.sec.gov>. You may also read and copy any document that LGI, Inc. has filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information regarding the operation of the Public Reference Room. In addition, LGI, Inc. makes available on their web sites <http://www.lgihomes.com> reports on form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K (and any amendments to those reports) filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as practicable after they have been electronically filed with the SEC. Unless otherwise specified, information contained LGI, Inc.'s web site, available by hyperlink from LGI, Inc.'s web sites or on the SEC's web site, is not incorporated into this OFFICIAL STATEMENT. The District has not obtained any representations from LGI, Inc. concerning its publicly available filings or undertaken any review thereof and assumes no responsibility for the information contained therein.

## MANAGEMENT OF THE DISTRICT

### **Board of Directors**

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to four-year staggered terms and elections are held in May in even numbered years only. None of the Board members reside within the District; however, each of the Board members owns land within the District subject to a note and deed of trust in favor of Land Tejas. The current members and officers of the Board along with their titles and terms, are listed as follows:

<u>Name</u>	<u>District Board Title</u>	<u>Term Expires</u>
Brian Bare	President	May 2022
Kolby Beich	Vice President	May 2022
Phillip Mullan	Secretary	May 2020
Chris Wilson	Assistant Secretary	May 2022
Rob Morrell	Director	May 2020

### **District Consultants**

The District does not have a general manager or other full-time employees, but contracts for certain necessary services as described below.

Bond Counsel/Attorney: The District has engaged Allen Boone Humphries Robinson LLP as general counsel to the District and as Bond Counsel in connection with the issuance of the District's bonds. The fees of the attorneys in their capacity as Bond Counsel are contingent upon the sale and delivery of the Bonds. Compensation to the attorneys for other services to the District is based on time charges actually incurred.

Financial Advisor: Masterson Advisors LLC serves as the District's Financial Advisor. The fee for services rendered in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

Auditor: The financial statements of the District as of March 31, 2018, and for the year then ended, included in this offering document, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. See "APPENDIX A" for a copy of the District's audited financial statements for the year ended March 31, 2018.

Engineer: The District's consulting engineer is Jones & Carter, Inc.

Tax Appraisal: The Galveston Central Appraisal District has the responsibility of appraising all property within the District. See "TAXING PROCEDURES."

Tax Assessor/Collector: The District has appointed an independent tax assessor/collector to perform the tax collection function. Assessments of the Southwest, Inc. (the "Tax Assessor/Collector") has been employed by the District to serve in this capacity.

Bookkeeper: The District has contracted with Myrtle Cruz, Inc. for bookkeeping services.

## **THE SYSTEM**

### **Regulation**

Construction and operation of the water, wastewater and storm drainage system serving the District (the “System”) as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District. Construction of water, wastewater and storm drainage facilities is subject to the regulatory authority of the City and Galveston County. The TCEQ also exercises regulatory jurisdiction over portions of the System.

### **Water Supply and Wastewater Treatment**

Permanent water supply and wastewater treatment for the District are provided by the City. The District has been allocated 940 and 1,195 equivalent single-family connections from the City to date for water supply and wastewater treatment, respectively. The District currently serves 437 equivalent single family connections including 132 homes under construction. Water supply and wastewater treatment capacities for future development may require additional water supply and wastewater treatment capacity allocations by the City as provided in the Utility Services Agreement.

Water and wastewater revenues derived from the collection of charges for water and sewer services are paid directly to the City by users.

### **Water Distribution, Wastewater Collection and Storm Drainage Facilities**

The District has constructed water distribution, wastewater collection, storm drainage and paving facilities to serve 822 single-family residential lots and such utilities are under construction for an additional 302 lots with an expected completion in the first quarter of 2019. See “THE DISTRICT—Status of Development.”

### **Ownership and Operations**

The District (or the Developers on behalf of the District) finances and constructs the System, and thereafter conveys the components of the System to the City upon completion, subject to the District’s capacity rights and the Developers’ reimbursement rights pursuant to the Utility Services Agreement. The System is owned, maintained, and operated by the City. The City charges and collects the fees associated with the System. The District receives no revenues from the operation of the System; funds for the administration of the District are available from maintenance tax revenue.

### **100-Year Flood Plain**

“Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is no assurance that homes built in such area will not be flooded. The District’s drainage system has been designed and constructed to all current standards. Further, the Flood Insurance Rate Map associated with the District indicates that none of the land in the District is located within the effective 100-year flood plain. See “INVESTMENT CONSIDERATIONS—Hurricane Harvey.”

## FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2018 Certified Taxable Assessed Valuation.....	\$96,353,684	(a)
Estimated Taxable Assessed Valuation as of June 1, 2018 .....	\$121,266,562	(b)
Gross Direct Debt Outstanding .....	\$12,785,000	(c)
Estimated Overlapping Debt .....	<u>3,226,306</u>	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$16,011,306	
Ratios of Gross Direct Debt to:		
2018 Certified Taxable Assessed Valuation .....	13.27%	
Estimated Taxable Assessed Valuation as of June 1, 2018 .....	10.54%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2018 Certified Taxable Assessed Valuation.....	16.62%	
Estimated Taxable Assessed Valuation as of June 1, 2018 .....	13.20%	
Debt Service Funds Available:		
Road Debt Service Fund Balance as of September 19, 2018 .....	\$ 251,013	(e)
Water, Sewer & Drainage Capitalized Interest (Twenty-Four Months) .....	<u>661,450</u>	(f)
Total Debt Service Funds Available .....	\$912,463	
Operating Funds Available as of September 19, 2018 .....	\$202,193	(g)
Capital Projects Funds Available as of September 19, 2018.....	\$21,454	

- (a) As certified by the Galveston Central Appraisal District (the "Appraisal District").
- (b) Provided by the Appraisal District for information purposes only. Such amount reflects the estimated value of land and improvements on June 1, 2018. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year and will be certified for the purpose of taxation on January 1, 2019 and certified in late summer of 2019. No taxes will be levied upon such amount until it is certified by the Appraisal District. See "TAXING PROCEDURES."
- (c) Includes the Bonds and the Outstanding Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds."
- (d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt" and "—Overlapping Taxes."
- (e) Funds in the Road Debt Service Fund are available to pay debt service on the bonds issued for road facilities and are not available to pay debt service on the bonds for water, wastewater and drainage facilities (including the Bonds). Funds in the Water, Sewer and Drainage Debt Service Fund are available to pay debt service on the bonds issued for water, sewer and drainage facilities and are not available to pay debt service on bonds issued for road facilities.
- (f) The District will capitalize twenty-four (24) months of interest from Bond proceeds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."
- (g) Approximately \$72,171 have been expended from the Operating Fund for expenses related to engineering and miscellaneous expenses for preparation of the bond application. A portion of the bond proceeds will be expended to reimburse the Operating Fund.

### **Investments of the District**

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code. The District's goal is to preserve principal and maintain liquidity while securing a competitive yield on its portfolio. Funds of the District will be invested in short term U.S. Treasuries, certificates of deposit insured by the Federal Deposit Insurance Corporation ("FDIC") or secured by collateral evidenced by perfected safekeeping receipts held by a third party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate the inclusion of, long term securities or derivative products in the District portfolio.

### **Short-Term Debt**

The District issued a \$4,100,000 Bond Anticipation Note, Series 2017A (the "BAN") on December 22, 2017, with a maturity date of December 21, 2018. The District will use Bond proceeds to redeem the BAN prior to maturity. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

### **Outstanding Debt**

The District has previously issued \$4,800,000 principal amount of unlimited tax bonds for purchasing and constructing a roadway system within the District, all of which is outstanding as of the date hereof (the "Outstanding Bonds").

**General Operating Fund**

The System is owned and operated by the City and no water and sewer revenue is received by the District nor is the District responsible for operation, repair or maintenance of the System.

The following statement sets forth in condensed form the General Operating Fund as shown in the District’s audited financial statements for the fiscal years ended March 31, 2015 through March 31, 2018. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to “APPENDIX A” for further and complete information.

	Fiscal Year Ended			
	<u>3/31/2018</u>	<u>3/31/2017</u>	<u>3/31/2016</u>	<u>3/31/2015</u>
<b>Revenues:</b>				
Property Taxes	\$ 408,348	\$ 284,506	\$ 56,143	\$ 36,060
Penalty and Interest	3,222	1,426	-	-
Investment Revenues	300	58	305	5
Other	235	-	-	-
<b>Total Revenue</b>	<b>\$ 412,105</b>	<b>\$ 285,990</b>	<b>\$ 56,448</b>	<b>\$ 36,065</b>
<b>Expenditures:</b>				
Professional Fees	\$ 114,692	\$ 68,868	\$ 72,354	\$ 91,739
Contracted Services	17,127	9,946	12,019	10,861
Repairs and Maintenance	43,356	4,939	-	-
Capital Outlay	66,086	-	-	-
Debt Issuance Costs	44,788	-	-	-
Other	24,467	13,216	13,688	49,769
<b>Total Expenditures</b>	<b>\$ 310,516</b>	<b>\$ 96,969</b>	<b>\$ 98,061</b>	<b>\$ 152,369</b>
<b>NET REVENUES</b>	<b><u>\$ 101,589</u></b>	<b><u>\$ 189,021</u></b>	<b><u>\$ (41,613)</u></b>	<b><u>\$ (116,304)</u></b>
Other Financing Sources (a)	\$ 2,250	\$ 6,000	\$ 58,500	\$ 148,011
<b>General Operating Fund</b>				
Balance (Beginning of Year)	\$ 243,615	\$ 48,594	\$ 31,707	\$ -
General Operating Fund				
Balance (End of Year)	\$ 347,454	\$ 243,615	\$ 48,594	\$ 31,707

(a) Developer advances.



**Debt Service Requirements**

The following sets forth the debt service on the Outstanding Bonds and the Bonds. This schedule does not reflect the fact that an amount equal to twenty-four (24) months of interest from the Series 2017 Road Bonds was capitalized in November 2017 and twenty-four (24) months of interest will be capitalized from Bond proceeds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

Year	Outstanding Debt Service	Plus: Debt Service on the Bonds			Total Debt Service
		Principal	Interest	Total	
2018	\$ 85,115.00 (a)	\$ -	\$ -	\$ -	\$ 85,115.00
2019	285,230.00	-	372,984.31	372,984.31	658,214.31
2020	287,355.00	185,000	330,725.00	515,725.00	803,080.00
2021	289,355.00	195,000	321,475.00	516,475.00	805,830.00
2022	291,230.00	200,000	311,725.00	511,725.00	802,955.00
2023	292,980.00	210,000	301,725.00	511,725.00	804,705.00
2024	294,470.00	220,000	291,225.00	511,225.00	805,695.00
2025	295,550.00	230,000	280,225.00	510,225.00	805,775.00
2026	296,200.00	240,000	271,025.00	511,025.00	807,225.00
2027	301,700.00	250,000	261,425.00	511,425.00	813,125.00
2028	301,740.00	260,000	251,425.00	511,425.00	813,165.00
2029	301,460.00	270,000	241,025.00	511,025.00	812,485.00
2030	300,850.00	280,000	230,225.00	510,225.00	811,075.00
2031	304,900.00	295,000	219,025.00	514,025.00	818,925.00
2032	303,425.00	305,000	207,225.00	512,225.00	815,650.00
2033	306,585.00	320,000	195,025.00	515,025.00	821,610.00
2034	304,185.00	330,000	182,225.00	512,225.00	816,410.00
2035	306,600.00	345,000	169,025.00	514,025.00	820,625.00
2036	308,000.00	360,000	155,225.00	515,225.00	823,225.00
2037	309,000.00	375,000	140,825.00	515,825.00	824,825.00
2038	309,600.00	390,000	125,825.00	515,825.00	825,425.00
2039	309,800.00	410,000	110,225.00	520,225.00	830,025.00
2040	304,600.00	425,000	93,825.00	518,825.00	823,425.00
2041	309,200.00	445,000	76,825.00	521,825.00	831,025.00
2042	308,200.00	465,000	59,025.00	524,025.00	832,225.00
2043	306,800.00	480,000	40,425.00	520,425.00	827,225.00
2044	-	500,000	20,625.00	520,625.00	520,625.00
<b>Total</b>	<b>\$ 7,614,130.00</b>	<b>\$ 7,985,000</b>	<b>\$ 5,260,559.31</b>	<b>\$ 13,245,559.31</b>	<b>\$ 20,859,689.31</b>

(a) Excludes the District’s June 1, 2018, debt service payment in the amount of \$99,301.

Average Annual Debt Service Requirements (2019-2044) .....	\$799,022
Maximum Annual Debt Service Requirement (2042).....	\$832,225

**Estimated Overlapping Debt**

The following table indicates the outstanding debt payable from ad valorem taxes, of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. Debt figures equated herein to outstanding obligations payable from ad valorem taxes are based upon data obtained from individual jurisdictions or Texas Municipal Reports compiled and published by the Municipal Advisory Council of Texas. Furthermore, certain entities listed below may have issued additional obligations since the date listed and may have plans to incur significant amounts of additional debt. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for the purposes of operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service and the tax burden for operation, maintenance and/or general revenue purposes is not included in these figures. The District has no control over the issuance of debt or tax levies of any such entities.

<u>Taxing Jurisdiction</u>	<u>Outstanding Bonds</u>	<u>As of</u>	<u>Percent</u>	<u>Overlapping Amount</u>
Galveston County .....	\$235,674,208	09/30/18	0.11%	\$ 259,242
City of Texas City .....	30,410,000	09/30/18	0.67%	267,866
College of the Mainland .....	15,130,000	08/31/18	0.30%	43,500
Dickinson Independent School District.....	312,435,000	09/30/18	0.85%	<u>2,655,698</u>
Total Estimated Overlapping Debt.....				\$ 3,226,306
The District's Total Direct Debt (a) .....				<u>12,785,000</u>
Total Direct and Estimated Overlapping Debt .....				\$16,011,306

Direct and Estimated Overlapping Debt as a Percentage of:

2018 Certified Taxable Assessed Valuation of \$96,353,684.....	16.62%
Estimated Taxable Assessed Valuation as of June 1, 2018 of \$121,266,562 .....	13.20%

(a) The Bonds and the Outstanding Bonds.

**Overlapping Taxes**

Property within the District is subject to taxation by several taxing authorities in addition to the District. On January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties and interest imposed on such property. The lien exists in favor of each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of taxing authorities shown below. In addition to ad valorem taxes required to pay debt service on bonded debt of the District and other taxing authorities (see Estimated Overlapping Debt" above), certain taxing jurisdictions, including the District, are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below are all of the taxes levied for the 2017 tax year by all taxing jurisdictions and the District's 2018 tax rate. As of the date hereof, none of the overlapping entities have levied a 2018 tax rate. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

	<u>Tax Rate Per \$100 of Taxable Assessed Valuation</u>
Galveston County (a) .....	\$0.551900
City of Texas City .....	0.577179
College of the Mainland .....	0.216791
Galveston County Drainage District No. 1.....	0.089000
Dickinson Independent School District.....	<u>1.520000</u>
Total Overlapping Tax Rate .....	\$2.954870
The District.....	<u>1.000000</u>
Total Tax Rate.....	\$3.954870

(a) Includes Galveston County Road and Flood District.

## TAX DATA

### Debt Service Tax

The Board covenants in the Bond Resolution to levy and assess, for each year that all or any part of the Bonds and the Outstanding Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. The District levied its initial debt service tax in 2018. See “Historical Tax Rate Distribution” and “Tax Roll Information” below, “TAXING PROCEDURES” and “INVESTMENT CONSIDERATIONS—Possible Impact on District Tax Rates.”

### Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District’s voters. A maintenance tax election was conducted November 6, 2007, and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$1.50 per \$100 appraised valuation. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See “Debt Service Tax” above.

### Historical Tax Rate

	2018	2017	2016	2015	2014
Debt Service Tax	\$ 0.26	\$ -	\$ -	\$ -	\$ -
Maintenance Tax	0.74	1.00	1.00	1.00	1.00
Total District Tax Rate	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00

### Tax Exemptions

The District has not adopted any tax exemptions for property located within the District.

### Additional Penalties

The District has contracted with a delinquent tax attorney to collect certain delinquent taxes. In connection with that contract, the District established an additional penalty of twenty percent (20%) of the tax to defray the costs of collection. This 20% penalty applies to taxes that either: (1) become delinquent on or after February 1 of a year, but not later than May 1 of that year, and that remain delinquent on April 1 (for personal property) or July 1 (for real property) of the year in which they become delinquent or (2) become delinquent on or after June 1, pursuant to the Texas Tax Code.

### Historical Tax Collections

The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the District’s tax assessor/collector. Reference is made to such statements and records for further and complete information. See “Tax Roll Information” below.

Tax Year	Net Certified Taxable			Total Collections As of 8/31/2018 (c)	
	Assessed Valuation (a)	Tax Rate	Total (b) Tax Levy	Amount	Percent
2014	\$ 3,606,040	\$ 1.00	36,060	\$ 36,060	100.00%
2015	5,614,310	1.00	56,143	56,143	100.00%
2016	30,364,180	1.00	303,642	303,642	100.00%
2017	39,316,422	1.00	393,164	392,284	99.78%
2018	96,353,684	1.00	963,537	(d)	(d)

- (a) Net valuation represents final gross appraised value as certified by the Appraisal District less any exemptions granted. See “Tax Roll Information” below for gross appraised value and exemptions granted by the District.
- (b) Represents actual tax levy, including any adjustments by the Appraisal District, as of the date hereof.
- (c) Unaudited collections.
- (d) In process of collection. Taxes for the 2018 tax year are due January 31, 2019.

## **Tax Roll Information**

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate (see "TAXING PROCEDURES—Valuation of Property for Taxation"). The following represents the composition of property comprising the 2014 through 2018 Certified Taxable Assessed Valuations. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year. A breakdown of the Estimated Taxable Assessed Valuation as of June 1, 2018, is not available.

	2018 Certified Taxable Assessed Valuation	2017 Certified Taxable Assessed Valuation	2016 Certified Taxable Assessed Valuation	2015 Certified Taxable Assessed Valuation	2014 Certified Taxable Assessed Valuation
Land	\$ 56,025,090	\$ 38,966,180	\$ 32,601,450	\$ 7,842,090	\$ 5,891,250
Improvements	41,828,510	2,611,000	46,920	56,920	-
Personal Property	298,850	-	-	-	-
Exemptions	(1,798,766)	(2,260,758)	(2,284,190)	(2,284,700)	(2,285,210)
Total	<u>96,353,684</u>	<u>39,316,422</u>	<u>30,364,180</u>	<u>5,614,310</u>	<u>3,606,040</u>

## **Principal Taxpayers**

The following table represents the principal taxpayers, the taxable appraised value of such property and the principal taxpayer total as a percentage of the 2018 Certified Taxable Assessed Valuation of \$96,353,684, which represents ownership as of January 1, 2018. A principal taxpayer list related to the Estimated Taxable Assessed Valuation as of June 1, 2018, of \$121,266,562 is not available.

Taxpayer	2018 Certified Taxable Assessed Valuation	% of 2018 Certified Taxable Assessed Valuation
MREC LT Lago Mar Investments LLC (a)	\$ 12,682,540	13.16%
LGI Homes - Texas LLC (a)	6,239,300	6.48%
Land Tejas Lago Mar LLC (a)	4,080,930	4.24%
Castlerock Communities LP (b)	3,482,970	3.61%
Westin Homes and Properties LP (b)	2,985,060	3.10%
Gehan Homes Ltd. (b)	2,600,000	2.70%
DR Horton - Texas Ltd. (b)	2,339,870	2.43%
MREC LT Lago Mar Operating LLC (a)	2,335,730	2.42%
JNC Development Inc.	2,277,940	2.36%
Aglia Homes LP (b)	1,920,380	1.99%
Total	\$ 40,944,720	42.49%

(a) See "THE DEVELOPERS."

(b) See "THE DISTRICT—Homebuilding."

**Tax Adequacy for Debt Service**

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 taxable assessed valuation which would be required to meet average annual and maximum annual debt service requirements if no growth in the District’s tax base occurred beyond the 2018 Certified Taxable Assessed Valuation of \$96,353,684 or the Estimated Taxable Assessed Valuation as of June 1, 2018 of \$121,266,562. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements” and “INVESTMENT CONSIDERATIONS—Possible Impact on District Tax Rates.”

Average Annual Debt Service Requirement (2019-2044) .....	\$799,022
\$0.88 Tax Rate on the 2018 Certified Taxable Assessed Valuation .....	\$805,517
\$0.70 Tax Rate on the Estimated Taxable Assessed Valuation as of June 1, 2018 .....	\$806,423
Maximum Annual Debt Service Requirement (2042).....	\$832,225
\$0.91 Tax Rate on the 2018 Certified Taxable Assessed Valuation .....	\$832,978
\$0.73 Tax Rate on the Estimated Taxable Assessed Valuation as of June 1, 2018 .....	\$840,984

No representation or suggestion is made that the Estimated Taxable Assessed Valuation as of June 1, 2018 provided by the Appraisal District for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amount or its inclusion herein as assurance of its attainment. See “TAXING PROCEDURES.”

**TAXING PROCEDURES**

**Authority to Levy Taxes**

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, the Outstanding Bonds, and any additional bonds payable from taxes which the District may hereafter issue (see “INVESTMENT CONSIDERATIONS—Future Debt”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Resolution to levy such a tax from year-to-year as described more fully herein under “THE BONDS—Source of Payment.” Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District. See “TAX DATA—Debt Service Tax” and “—Maintenance Tax.”

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

Title I of the Texas Property Tax Code (the “Property Tax Code”) specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here.

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

**Property Subject to Taxation by the District**

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: 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; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years of age or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the previous election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District’s obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$3,000 and \$12,000 of taxable valuation depending upon the disability rating of the veteran claiming the exemption,

and qualifying surviving spouses of persons 65 years of age or older will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. See "TAX DATA."

***Residential Homestead Exemptions:*** The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted before July 1. See "TAX DATA."

***Freeport Goods Exemption:*** A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods- in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

### **Tax Abatement**

Galveston County or the City may designate all or part of the area within the District as a reinvestment zone. Thereafter, Galveston County, the City and the District, under certain circumstances, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the appraised valuation of property covered by the agreement over its appraised valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement agreement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

### **Valuation of Property for Taxation**

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. In November 1997, Texas voters approved a constitutional amendment to limit increases in the appraised value of residence homesteads to ten percent (10%) annually regardless of the market value of the property. The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use and taxes for the previous five (5) years for open space land and timberland.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis. The District, however, at its expense has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses formally to include such values on its appraisal roll.

When requested by a local taxing unit, such as the District, the Appraisal District is required to complete a reappraisal as soon as practicable of all property damaged in an area that the Governor declares a disaster area. For reappraised property, the taxes are pro-rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1. Beginning on the date of the disaster and for the remainder of the year, the taxing unit applies its tax rate to the reappraised market value of the property.

### **District and Taxpayer Remedies**

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

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

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

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

Certain qualified taxpayers, including owners of residential homesteads, located within a natural disaster area and whose property has been damaged as a direct result of the disaster, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction such as the District if the tax payer pays at least one-fourth of the tax bill imposed on the property by the delinquency date. The remaining taxes may be paid without penalty or interest in three equal installments within six months of the delinquency date.

### **Rollback of Operation and Maintenance Tax Rate**

The qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average residence homestead increases by more than eight percent. If a rollback election is called and passes, the rollback tax rate is the current year's debt service and contract tax rates plus 1.08 times the previous year's operation and maintenance tax rate. Thus, debt service and contract tax rates cannot be changed by a rollback election.

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

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

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both subject to the restrictions on residential homesteads described above under "Levy and Collection of Taxes." In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records. See "INVESTMENT CONSIDERATIONS—General" and "—Tax Collection Limitations and Foreclosure Remedies."

### **The Effect of FIRREA on Tax Collections of the District**

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

Under FIRREA, real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary liens shall attach to such property, (ii) the FDIC shall not be liable for any penalties, interest, or fines, including those arising from the failure to pay any real or personal property tax when due, and (iii) notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed.

To the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District and may prevent the collection of penalties and interest on such taxes or may affect the valuation of such property.



## INVESTMENT CONSIDERATIONS

### **Hurricane Harvey**

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced three storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015. The most recent event was Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days.

According to Jones & Carter Inc. (the “Engineer”), water and wastewater service to the District was not interrupted during the storm event. Further, according to MREC and LGI LLC, no homes within the District experienced structural flooding or other material damage.

If a future weather event significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase the District’s tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.

### **Specific Flood Type Risks**

*Ponding (or Pluvial) Flood.* Ponding, or pluvial, flooding occurs when heavy rainfall creates a flood event independent of an overflowing water body, typically in relatively flat areas. Intense rainfall can exceed the drainage capacity of a drainage system, which may result in water within the drainage system becoming trapped and diverted onto streets and nearby property until it is able to reach a natural outlet. Ponding can also occur in a flood pool upstream or behind a dam, levee or reservoir.

*Riverine (or Fluvial) Flood.* Riverine, or fluvial, flooding occurs when water levels rise over the top of river, bayou or channel banks due to excessive rain from tropical systems making landfall and/or persistent thunderstorms over the same area for extended periods of time. The damage from a riverine flood can be widespread. The overflow can affect smaller rivers and streams downstream, or may sheet-flow over land. Flash flooding is a type of riverine flood that is characterized by an intense, high velocity torrent of water that occurs in an existing river channel with little to no notice. Flash flooding can also occur even if no rain has fallen, for instance, after a levee, dam or reservoir has failed or experienced an uncontrolled release, or after a sudden release of water by a debris or ice jam. In addition, planned or unplanned controlled releases from a dam, levee or reservoir also may result in flooding in areas adjacent to rivers, bayous or drainage systems downstream.

### **General**

The Bonds are obligations solely of the District and are not obligations of the City of Texas City, Texas (the “City”), Galveston County, the State of Texas, or any entity other than the District. Payment of the principal of and interest on the Bonds depends upon the ability of the District to collect taxes levied on taxable property within the District in an amount sufficient to service the District’s bonded debt or in the event of foreclosure, on the value of the taxable property in the District and the taxes levied by the District and other taxing authorities upon the property within the District. See “THE BONDS—Source of Payment.” The collection by the District of delinquent taxes owed to it and the enforcement by registered owners of the District’s obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of taxable property within the District will accumulate or maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property or that owners of the property will have the ability to pay taxes. See “Registered Owners’ Remedies” below.

### **Economic Factors and Interest Rates**

The majority of the taxable value of the District results from the current market value of single-family residences and of developed lots which are currently being marketed by the Developers for sale to homebuilders and homebuyers for the construction of primary residences. The market value of such homes and lots is related to general economic conditions in the Houston-Galveston region and the national economy and those conditions can affect the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability (see “Credit Market and Liquidity in the Financial Markets”), construction costs and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values.

### **Developers/Property Owners Obligation to the District**

There are no commitments from or obligations of the Developers or any landowner to the District to proceed at any particular rate or according to any specified plan with the development of land or the construction of improvements in the District, and there is no restriction on any landowner's right to sell its land. Failure to construct taxable improvements on developed tracts of land would restrict the rate of growth of taxable values in the District. The District cannot and does not make any representations that over the life of the Bonds, continued development of taxable property within the District will increase or maintain its taxable value.

### **Credit Markets and Liquidity in the Financial Markets**

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 30 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and the national financial and credit markets. A downturn in the economic conditions of the Houston metropolitan area and the nation could adversely affect development in the District and restrain the growth of the District's property tax base.

### **Competition**

The demand for and construction of single-family homes in the District, which is 30 miles from downtown Houston, could be affected by competition from other residential developments located in the southern portion of the Houston metropolitan area. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District and in more established neighborhoods closer to downtown Houston. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of the Developers in the sale of developed lots and the construction of single-family residential houses within the District by homebuilders is affected by most of the factors discussed in this section. Such a competitive position directly affects the growth and maintenance of taxable values in the District. The District can give no assurance that building and marketing programs in the District by the Developers will be implemented or, if implemented, will be successful.

### **Dependence on Principal Taxpayers**

The ten principal taxpayers represent 42.49% or \$40,944,720 of the 2018 Certified Taxable Assessed Valuation of \$96,353,684. MREC represents 15.59% or \$15,018,270 of the 2018 Certified Taxable Assessed Valuation and LGI LLC represents 6.48% or \$6,239,300 of the 2018 Certified Taxable Assessed Valuation. A principal taxpayer list related to the Estimated Taxable Assessed Valuation as of June 1, 2018 is not available. See "THE DEVELOPERS" and "TAX DATA—Principal Taxpayers." The ability of any principal taxpayer to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District's ability to meet its debt service obligations. If, for any reason, any one or more principal taxpayers do not pay taxes due or do not pay in a timely manner, the District may need to raise its tax rate or use other available funds for debt service purposes. However, the District has not covenanted in the Bond Resolution, nor is it required by Texas law, to maintain any particular balance in its Debt Service Fund or any other funds to allow for any such delinquencies. Therefore, failure by one or more principal taxpayers to pay their taxes on a timely basis could have a material adverse effect upon the District's ability to pay debt service on the Bonds on a current basis.

### **Possible Impact on District Tax Rates**

Assuming no further development, the value of the land and improvements currently existing within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2018 Certified Taxable Assessed Valuation is \$96,353,684. After issuance of the Bonds, the maximum debt service requirement will be \$832,225 (2042), and the average annual debt service requirement will be \$799,022 (2019-2044, inclusive). Assuming no increase or decrease from the 2018 Certified Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.88 and \$0.91 per \$100 taxable assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum debt service requirement and the average annual debt service requirement, respectively. The Estimated Taxable Assessed Valuation as of June 1, 2018 is \$121,266,562, which reduces the above calculations to \$0.70 and \$0.73, respectively.

While the District anticipates future increases in taxable values, it makes no representations that over the term of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by property owners or that the Estimated Taxable Assessed Valuation as of June 1, 2018 will ultimately be certified. Property within the District also is subject to taxes levied by other political subdivisions. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes” and “TAX DATA—Tax Adequacy for Debt Service.”

### **Undeveloped Acreage and Vacant Lots**

There are approximately 479 developable acres of land within the District that have not been fully provided with water, sanitary sewer, storm sewer, road and other facilities necessary for the construction of taxable improvements (including approximately 85 acres where utility construction is underway for 302 lots) and 385 developed lots remain vacant. The District makes no representation as to when or if development of the undeveloped acreage will occur or that the lot sales and building program will be successful. See “THE DISTRICT—Land Use—Status of Development.”

### **Future Debt**

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. After reimbursement with Bond proceeds, the District will continue to owe the Developers approximately \$25,000,000 plus interest for advances to construct the currently existing water, wastewater, drainage and recreational facilities. The District expects to issue additional bonds in order to reimburse the Developers for their outstanding obligations and the cost of additional water, wastewater and road facilities constructed within the undeveloped portion of the District. The District’s voters have authorized a total of \$138,970,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, wastewater and drainage facilities and for the further purpose of refunding such bonds, a total of \$56,615,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing a roadway system and for the further purpose of refunding such bonds, and a total of \$17,550,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing parks and recreational facilities and for the further purpose of refunding. After the issuance of the Bonds, \$130,985,000 principal amount of unlimited tax bonds will remain authorized but unissued for the purpose of acquiring or constructing water, wastewater and drainage facilities and for the purpose of refunding such bonds, all of the unlimited tax bonds authorized for parks and recreational facilities and refunding of such facilities remains authorized but unissued, and \$51,815,000 principal amount of unlimited tax bonds for purchasing and constructing a roadway system and refunding of such bonds authorized but unissued. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional obligations may increase the District’s tax rate and adversely affect the security for, and the investment quality and value of, the Bonds.

The District has authorized the preparation of a bond application to the TCEQ requesting authorization to issue approximately \$5,000,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities. The District anticipates issuance of such bonds in 2019.

The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds for water, wastewater and drainage facilities and recreational facilities is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See “THE BONDS—Issuance of Additional Debt.”

### **Tax Collections Limitations and Foreclosure Remedies**

The District’s ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District’s ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court’s stay of tax collection procedures against a taxpayer, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes”), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers’ right to redeem property within two years of foreclosure for residential and agricultural use property and six months for other property). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor’s confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

## **Registered Owners' Remedies and Bankruptcy Limitations**

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901- 946. The filing of such petition would automatically stay the enforcement of Registered Owner's remedies, including mandamus. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision such as the District may qualify as a debtor eligible to proceed in a Chapter 9 case only if it is (1) authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Special districts such as the District must obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

Notwithstanding noncompliance by a district with Texas law requirements, the District could file a voluntary bankruptcy petition under Chapter 9, thereby invoking the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in making the decision of whether to grant the petitioning District relief from its creditors. While such a decision might be appealable, the concomitant delay and loss of remedies to the Registered Owner could potentially and adversely impair the value of the Registered Owner's claim.

If a petitioning district were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect Registered Owners by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating the collateral or security arrangements, substituting (in whole or in part) other Bonds, and otherwise compromising and modifying the rights and remedies of the Registered Owners' claims against a district.

A district may not be forced into bankruptcy involuntarily.

## **Environmental Regulation**

Wastewater treatment, water supply, storm sewer facilities and construction activities within the District are subject to complex environmental laws and regulations at the federal, state and local levels that may require or prohibit certain activities that affect the environment, such as:

- Requiring permits for construction and operation of water wells, wastewater treatment and other facilities;
- Restricting the manner in which wastes are treated and released into the air, water and soils;
- Restricting or regulating the use of wetlands or other properties; or
- Requiring remedial action to prevent or mitigate pollution.

Sanctions against a municipal utility district or other type of special purpose district for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements and issuance of injunctions to ensure future compliance. Environmental laws and compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Environmental laws can also inhibit growth and development within the District. Further, changes in regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

*Air Quality/Greenhouse Gas Issues.* Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the Texas Commission on Environmental Quality (the “TCEQ”) may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston Galveston area (“HGB area”)—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties—was designated by the EPA in 2008 as a severe ozone nonattainment area under the 1997 “eight-hour” ozone standards (“the 1997 Ozone Standards”). In December 2015, the EPA determined that the HGB area has reached attainment under the 1997 Ozone Standards, and in May 2016, the EPA issued a proposed rule approving Texas’s redesignation substitute demonstration for the HGB area. However, until the EPA issues a final ruling, the HGB area is still subject to anti-backsliding obligations and nonattainment new source review requirements associated with the 1997 Ozone Standards.

In 2008, the EPA lowered the ozone standard from 80 parts per billion (“ppb”) to 75 ppb (“the 2008 Ozone Standard”), and designated the HGB area as a marginal ozone nonattainment area, effective July 20, 2012. Such nonattainment areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA’s 2008 Ozone Standard is met. The HGB area did not reach attainment under the 2008 Ozone Standard by the 2016 deadline, and on September 21, 2016, the EPA proposed to reclassify the HGB area from marginal to moderate under the 2008 Ozone Standard. If reclassified, the HGB area’s 2008 Ozone Standard attainment deadline must be met as expeditiously as practicable, but in any event no later than July 20, 2018. If the HGB area fails to demonstrate progress in reducing ozone concentration or fails to meet the EPA’s 2008 Ozone Standard, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

On October 1, 2015, the EPA lowered the ozone standard from 75 ppb to 70 ppb (“the 2015 Ozone Standard”). On May 1, 2018, the EPA designated the HGB area as nonattainment for the 2015 Ozone Standard, and submitted this ruling for publication in the Federal Register. The HGB area nonattainment designation will become effective sixty days after publication in the Federal Register. A designation of nonattainment for ozone or any pollutant can negatively impact business due to the additional permitting/regulatory constraints that accompany this designation and because of the community stigma associated with a nonattainment designation. This designation could make it more difficult for the HGB area to demonstrate progress in reducing ozone concentration.

In order to comply with the EPA’s ozone standards for the HGB area, the TCEQ has established a state implementation plan (“SIP”) setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB area. It is possible that additional controls will be necessary to allow the HGB area to reach attainment by the EPA’s attainment deadlines. These additional controls could have a negative impact on the HGB area’s economic growth and development.

*Water Supply & Discharge Issues.* Water supply and discharge regulations that municipal utility districts, including the District, may be required to comply with involve: (1) public water supply systems, (2) waste water discharges from treatment facilities, (3) storm water discharges, and (4) wetlands dredge and fill activities. Each of these is addressed below:

Pursuant to the federal Safe Drinking Water Act (“SDWA”) and Environmental Protection Agency’s National Primary Drinking Water Regulations (“NPDWRs”), which are implemented by the TCEQ’s Water Supply Division, a municipal utility district’s provision of water for human consumption is subject to extensive regulation as a public water system. Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency’s rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

Texas Pollutant Discharge Elimination System (“TPDES”) permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000), with an effective date of March 5, 2018, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain nonstormwater discharges into surface water in the state. It has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act (“CWA”) and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and must establish the total maximum allowable daily load (“TMDL”) of certain pollutants into the water bodies. The TMDLs that municipal utility districts may discharge may have an impact on the municipal utility district’s ability to obtain and maintain TPDES permits.

On May 27, 2015, the EPA and the United States Army Corps of Engineers (“USACE”) jointly issued a final version of the Clean Water Rule (“CWR”), which expands the scope of the federal government’s CWA jurisdiction over intrastate water bodies and wetlands. The final rule became effective on August 28, 2015. The CWR has been the subject of numerous lawsuits in federal district courts and the United States Supreme Court.

On February 28, 2017, the President signed an executive order ordering the EPA and USACE to modify or rescind the CWR. On June 27, 2017, the EPA and the USACE released a proposed rule rescinding the CWR, reinstating language in place before 2015 changes, and proposing the development of a revised definition of “waters of the United States.” This proposed rule was published in the Federal Register on July 27, 2017, the comment period ended on September 28, 2017.

On January 31, 2018, the EPA and the USACE finalized a rule extending the effective date of the CWR by two years from the date the rule is published in the Federal Register, until 2020. On August 16, 2018, a federal judge in South Carolina held that the EPA violated the Administrative Procedure Act by enacting this rule without the customary 30-day comment period, and issued a nation-wide injunction on the rule extending the effective date of the CWR, thereby reinstating the CWR in 26 states, including Texas. On September 13, 2018, a United States District Court of the Southern District of Texas judge temporarily halted the implementation of the CWR in Texas, Louisiana, and Mississippi.

On June 15, 2018, the EPA and the USACE sent a proposed “Step 2” rule that would redefine “waters of the United States” to the Office of Management and Budget for interagency review. On June 30, 2018, the EPA and the USACE issued a supplemental notice of proposed rulemaking to clarify that the agencies are proposing to permanently repeal the 2015 rule in its entirety, and reinstate language in place before 2015 changes while developing a revised definition of “waters of the United States.” The proposed rule will be published in the Federal Register and is then subject to a 30-day public comment period prior to final publication.

If the CWR is not rescinded, operations of municipal utility districts, including the District, are potentially subject to additional restrictions and requirements, including permitting requirements, if construction or maintenance activities require the dredging, filling or other physical alteration of jurisdictional waters of the United States or associated wetlands that are within the “waters of the United States.”

### **Marketability of the Bonds**

The District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers as such bonds are more generally bought, sold or traded in the secondary market.

### **Changes in Tax Legislation**

Certain tax legislation, whether currently proposed or proposed in the future, may directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, may also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

### **Continuing Compliance with Certain Covenants**

Failure of the District to comply with certain covenants contained in the Bond Resolution on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactive to the date of original issuance. See “TAX MATTERS.”

## **Risk Factors Related to the Purchase of Municipal Bond Insurance**

The Underwriter has entered into an agreement with ASSURED GUARANTY MUNICIPAL CORP. (“AGM” or the “Insurer”) for the purchase of a municipal bond insurance policy (the “Policy”). At the time of entering into the agreement, the Insurer was rated “AA” (stable outlook) by S&P and “A2” (stable outlook) by Moody’s. See “MUNICIPAL BOND INSURANCE.”

The long-term ratings on the Bonds are dependent in part on the financial strength of the bond insurer (the “Insurer”) and its claim paying ability. The Insurer’s financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Insurer and of the ratings on the Bonds insured by the Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See description of “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE.”

The obligations of the Insurer are contractual obligations and in an event of default by the Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

Neither the District nor the Underwriter has made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Insurer, particularly over the life of the investment. See “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE” for further information provided by the Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Insurer.

## **MUNICIPAL BOND RATING**

It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) and Moody’s Investors Service, Inc. (Moody’s) will assign municipal bond ratings of “AA” (stable outlook) and “A2” (stable outlook), respectively, to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. Moody’s has also assigned an underlying rating of “Baa3” to the Bonds. An explanation of the ratings may be obtained from the company furnishing each rating.

There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by S&P or Moody’s, in its judgment, circumstances so warrant. Any such revisions or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

## **MUNICIPAL BOND INSURANCE**

### **Bond Insurance Policy**

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (“AGM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as APPENDIX B to this OFFICIAL STATEMENT.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **Assured Guaranty Municipal Corp.**

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

#### *Current Financial Strength Ratings*

On June 26, 2018, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On May 7, 2018, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

On January 23, 2018, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

#### *Capitalization of AGM*

At June 30, 2018:

- The policyholders' surplus of AGM was approximately \$2,221 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,166 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,898 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the consolidated net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGE were determined in accordance with accounting principles generally accepted in the United States of America.

#### *Incorporation of Certain Documents by Reference*

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this OFFICIAL STATEMENT and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (filed by AGL with the SEC on February 23, 2018);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 (filed by AGL with the SEC on May 4, 2018); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018 (filed by AGL with the SEC on August 2, 2018).



All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof “furnished” under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this OFFICIAL STATEMENT and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC’s website at <http://www.sec.gov>, at AGL’s website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL’s website shall be deemed to be part of or incorporated in this OFFICIAL STATEMENT.

Any information regarding AGM included herein under the caption “MUNICIPAL BOND INSURANCE—Assured Guaranty Municipal Corp.” or included in a document incorporated by reference herein (collectively, the “AGM Information”) shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this OFFICIAL STATEMENT, except as so modified or superseded.

#### *Miscellaneous Matters*

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this OFFICIAL STATEMENT or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “MUNICIPAL BOND INSURANCE”.

## LEGAL MATTERS

### **Legal Proceedings**

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas payable from the proceeds of an annual ad valorem tax levied by the District, without limit as to rate or amount, upon all taxable property within the District, and, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the approving legal opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, to a like effect and to the effect that (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and (ii) interest on the Bonds is not subject to the alternative minimum tax on individuals.

Bond Counsel has reviewed the information appearing in this OFFICIAL STATEMENT under “THE BONDS,” “THE DISTRICT—General,” “TAXING PROCEDURES,” “LEGAL MATTERS,” “TAX MATTERS” and “CONTINUING DISCLOSURE OF INFORMATION” solely to determine whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this OFFICIAL STATEMENT nor has it conducted an investigation of the affairs of the District or the Developers for the purpose of passing upon the accuracy or completeness of this OFFICIAL STATEMENT. No person is entitled to rely upon Bond Counsel’s limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

Allen Boone Humphries Robinson LLP, also serves as general counsel to the District on matters other than the issuance of bonds. The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

### **No Material Adverse Change**

The obligations of the Underwriter to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District from that set forth or contemplated in the PRELIMINARY OFFICIAL STATEMENT.

## **No-Litigation Certificate**

The District will furnish the Underwriter a certificate, executed by both the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

## **TAX MATTERS**

In the opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, and (ii) interest on the Bonds is not subject to the alternative minimum tax on individuals.

The Internal Revenue Code of 1986, as amended (the "Code") imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The District has covenanted in the Bond Resolution that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Resolution pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the District, the District's Financial Advisor and the Underwriter with respect to matters solely within the knowledge of the District, the District's Financial Advisor and the Underwriter, respectively, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Bond Resolution or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

Under the Code, taxpayers are required to report on their returns the amount of tax exempt interest, such as interest on the Bonds, received or accrued during the year. Payments of interest on tax-exempt obligations such as the Bonds are in many cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits, including tax exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the owners of the Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

## **Tax Accounting Treatment of Original Issue Discount Bonds**

The issue price of certain of the Bonds (the “Original Issue Discount Bonds”) is less than the stated redemption price at maturity. In such case, under existing law, and based upon the assumptions hereinafter stated (a) the difference between (i) the stated amount payable at the maturity of each Original Issue Discount Bond and (ii) the issue price of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond at the initial public offering price in the initial public offering of the Bonds; and (b) such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner.

The foregoing is based on the assumptions that (a) the Underwriter has purchased the Bonds for contemporaneous sale to the general public and not for investment purposes, and (b) all of the Original Issue Discount Bonds have been offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm’s-length transactions for a cash price (and with no other consideration being included) equal to the initial offering prices thereof stated on the cover page of this Official Statement, and (c) the respective initial offering prices of the Original Issue Discount Bonds to the general public are equal to the fair market value thereof. Neither the District nor Bond Counsel warrants that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

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

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

## **Not Qualified Tax-Exempt Obligations**

The Bonds are not “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.

## **PREPARATION OF OFFICIAL STATEMENT**

### **Sources and Compilation of Information**

The financial data and other information contained in this OFFICIAL STATEMENT has been obtained primarily from the District’s records, the Developers, the Engineer, the Tax Assessor/Collector, the Appraisal District and from other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District except as described below under “Certification of Official Statement.” Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this OFFICIAL STATEMENT are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

### **Financial Advisor**

Masterson Advisors LLC is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the OFFICIAL STATEMENT, including the OFFICIAL NOTICE OF SALE and the OFFICIAL BID FORM for the sale of the Bonds. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this OFFICIAL STATEMENT. The Financial Advisor has reviewed the information in this OFFICIAL STATEMENT in accordance with, and as a part of, its responsibilities to the District 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.

## **Consultants**

In approving this OFFICIAL STATEMENT the District has relied upon the following consultants.

*Tax Assessor/Collector:* The information contained in this OFFICIAL STATEMENT relating to the breakdown of the District's historical assessed value and principal taxpayers, including particularly such information contained in the section entitled "TAX DATA" has been provided by Assessments of the Southwest, Inc. and is included herein in reliance upon the authority of such entity as an expert in assessing property values and collecting taxes.

*Engineer:* The information contained in this OFFICIAL STATEMENT relating to engineering and to the description of the System and, in particular that information included in the sections entitled "THE DISTRICT," and "THE SYSTEM" has been provided by Jones & Carter, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

*Auditor:* The financial statements of the District as of March 31, 2018, and for the year then ended, included in this offering document, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. See "APPENDIX A" for a copy of the District's audited financial statements for the year ended March 31, 2018.

## **Updating the Official Statement**

If subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Underwriter, of any adverse event which causes the Official Statement to be materially misleading, and unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriter, provided, however, that the obligation of the District to the Underwriter to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Underwriter, unless the Underwriter notifies the District on or before such date that less than all of the bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time as required by law (but not more than 90 days after the date the District delivers the Bonds).

## **Certification of Official Statement**

The District, acting through its Board in its official capacity, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading. With respect to information included in this OFFICIAL STATEMENT other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District. In rendering such certificate, the Board has relied in part upon its examination of records of the District, and upon discussions with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of the District.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Bond Resolution, the District has the following agreement for the benefit of the registered and beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District 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 MSRB has established the Electronic Municipal Market Access ("EMMA") system.

## **Annual Reports**

The District will provide certain financial information and operating data annually to the MSRB. The financial information and operating data which will be provided with respect to the District includes all quantitative financial information and operating data of the general type included in this OFFICIAL STATEMENT under the headings "THE SYSTEM," "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)," except for "Estimated Overlapping Debt," "TAX DATA," and in APPENDIX A (Independent Auditor's Report and Financial Statements of the District and certain supplemental schedules). The District will update and provide this information to the MSRB within six months after the end of each of its fiscal years ending in or after 2019. Any financial statements so provided shall be prepared in accordance with generally accepted accounting principles or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable period to the MSRB within such six month period, and audited financial statements when the audit report becomes available.

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

### **Event Notices**

The District will provide timely notices of certain specified events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of 17 CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, 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 trustee or the change of name of a trustee, if material. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution make any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information and operating data in accordance with its agreement described above under "Annual Reports."

### **Availability of Information from the MSRB**

The District has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public without charge through its Electronic Municipal Market Access ("EMMA") internet portal at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Limitations and Amendments**

The District has agreed to update information and to provide notices of specified events only as described above. The District 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 District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District 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 or beneficial owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement from time to time to adapt the 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 District, if but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The District may amend or repeal the agreement in the Bond Resolution if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the initial offering. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

### **Compliance With Prior Undertakings**

The District issued its initial series of bonds in 2017, and the District has not failed to comply in any material respect with its undertakings entered into under SEC Rule 15c2-12.

**MISCELLANEOUS**

All estimates, statements and assumptions in this OFFICIAL STATEMENT and the APPENDICES hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this OFFICIAL STATEMENT involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact, and no representation is made that any such statements will be realized.

/s/ Brian Bare  
President, Board of Directors

ATTEST:

/s/ Phillip Mullan  
Secretary, Board of Directors

**AERIAL PHOTOGRAPH**  
**(As of June 2018)**



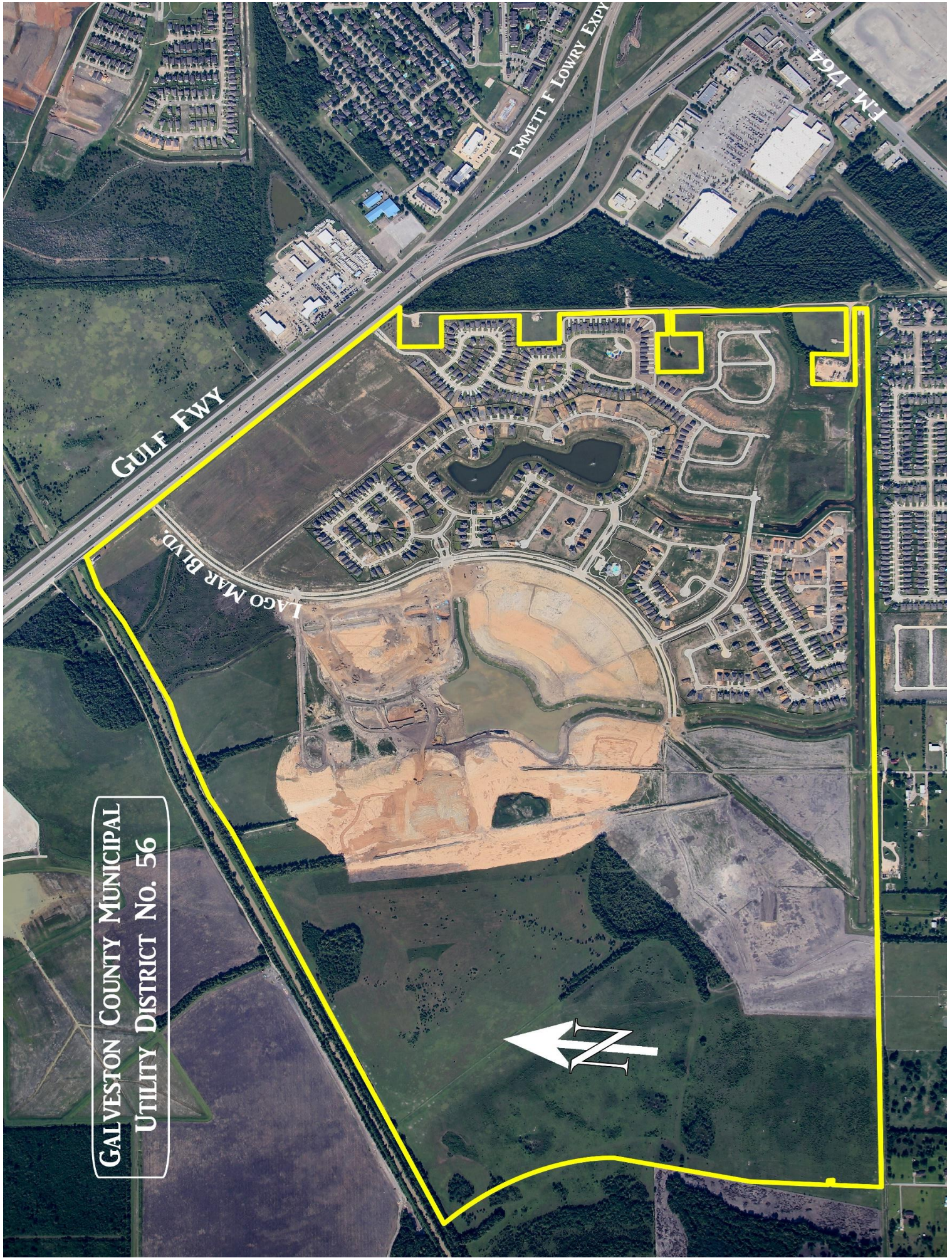
GALVESTON COUNTY MUNICIPAL  
UTILITY DISTRICT No. 56

GULF FWY

LAGO MAR BLVD

EMMETT F LOWRY EXPY

F.M. 1764





**PHOTOGRAPHS OF THE DISTRICT**  
**(As of June 2018)**























**APPENDIX A**

**Independent Auditor's Report and Financial Statements of the District  
for the fiscal year ended March 31, 2018.**



# **Galveston County Municipal Utility District No. 56**

Galveston County, Texas

Independent Auditor's Report and Financial Statements

March 31, 2018



**Galveston County Municipal Utility District No. 56**  
**March 31, 2018**

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## Independent Auditor's Report

Board of Directors  
Galveston County Municipal Utility District No. 56  
Galveston County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Galveston County Municipal Utility District No. 56 (the District), as of and for the year ended March 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of March 31, 2018 and the respective changes in financial position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**BKD, LLP**

Houston, Texas  
August 13, 2018

# **Galveston County Municipal Utility District No. 56**

## **Management's Discussion and Analysis**

### **March 31, 2018**

#### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, sanitary sewer and drainage services. Other activities, such as the provision of recreation facilities and solid waste collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

#### **Government-wide Financial Statements**

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets, liabilities, and deferred inflows and outflows of resources of the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current year.

**Galveston County Municipal Utility District No. 56**  
**Management's Discussion and Analysis (Continued)**  
**March 31, 2018**

Although the statement of activities looks different from a commercial enterprise's statement of income, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as change in net position, essentially the same thing.

**Fund Financial Statements**

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the general fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

**Governmental Funds**

Governmental-fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water, sewer and drainage systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's assets, liabilities, and deferred inflows and outflows of resources is labeled the fund balance and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements is different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in the notes to financial statements that describes the adjustments to fund balances to arrive at net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in the notes to financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position, as reported in the governmental activities column in the statement of activities.

**Notes to Financial Statements**

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

**Galveston County Municipal Utility District No. 56**  
**Management's Discussion and Analysis (Continued)**  
**March 31, 2018**

**Financial Analysis of the District as a Whole**

The District's overall financial position and activities for the past two years are summarized as follows based on the information included in the government-wide financial statements.

**Summary of Net Position**

	<b>2018</b>	<b>2017</b>
Current and other assets	\$ 961,252	\$ 285,104
Capital assets	2,457,930	-
Total assets	\$ 3,419,182	\$ 285,104
Long-term liabilities	\$ 32,239,676	\$ 17,885,547
Other liabilities	119,872	20,631
Total liabilities	32,359,548	17,906,178
Net position:		
Net investment in capital assets	(29,197,440)	(17,885,547)
Restricted	40	-
Unrestricted	257,034	264,473
Total net position	\$ (28,940,366)	\$ (17,621,074)

The total net position of the District decreased by \$11,319,292, or 64 percent. The decrease in net position is primarily related to the conveyance of capital assets to another governmental entity for maintenance.

At March 31, 2018, net investment in capital assets was \$(29,197,440). This amount was negative because the District has an obligation to sell bonds to finance the construction or acquisition of capital assets, which have been conveyed to the City of Texas City (the City) pursuant to a utility agreement between the District and the City. Accordingly, these assets are not recorded in the financial statements of the District.

**Summary of Changes in Net Position**

	<b>2018</b>	<b>2017</b>
Revenues:		
Property taxes	\$ 393,164	\$ 303,642
Other revenues	3,098	2,040
Total revenues	396,262	305,682

**Galveston County Municipal Utility District No. 56**  
**Management's Discussion and Analysis (Continued)**  
**March 31, 2018**

**Summary of Changes in Net Position (Continued)**

	<b>2018</b>	<b>2017</b>
Expenses:		
Services	\$ 392,976	\$ 96,969
Conveyance of capital assets	10,835,110	17,556,426
Debt service	487,468	-
Total expenses	11,715,554	17,653,395
Change in net position	(11,319,292)	(17,347,713)
Net position, beginning of year	(17,621,074)	(273,361)
Net position, end of year	\$ (28,940,366)	\$ (17,621,074)

**Financial Analysis of the District's Funds**

The District's combined fund balances as of the end of the fiscal year ended March 31, 2018, were \$932,042, an increase of \$688,427 from the prior year.

The general fund's fund balance increased by \$103,839. This increase was primarily due to property tax revenues being greater than operating expenditures.

The debt service fund's fund balance increased by \$340,702 due to bond proceeds received to fund capitalized interest.

The capital projects fund's fund balance increased by \$243,886 due to proceeds received from the sale of bonds and bond anticipation notes exceeding capital outlay expenditures.

**General Fund Budgetary Highlights**

There were several differences between the final budgetary amounts and actual amounts. The major difference between budget and actual were due to property tax revenues being greater than anticipated. In addition, capital outlay expenditures and debt issuance costs were not included in the current year budget. The fund balance as of March 31, 2018, was expected to be \$347,850 and the actual end-of-year fund balance was \$347,454.



**Galveston County Municipal Utility District No. 56**  
**Management's Discussion and Analysis (Continued)**  
**March 31, 2018**

**Capital Assets and Related Debt**

**Capital Assets**

Capital assets held by the District at the end of the current and previous fiscal years are summarized below:

	<b>2018</b>	<b>2017</b>
Land and improvements	\$ 2,457,930	\$ 0

During the current year, additions to capital assets were as follows:

15.27-acre of 44.51-acre detention site to serve Lago Mar	\$ 596,011
4.50-acre detention site to serve Seacrest, Section 2	205,527
24.74-acre detention site to serve Seacrest, Section 3	1,656,392
Total additions to capital assets	\$ 2,457,930

**Debt**

The changes in the debt position of the District during the fiscal year ended March 31, 2018, are summarized as follows.

Long-term debt payable, beginning of year	\$ 17,885,547
Increases in long-term debt	21,234,377
Decreases in long-term debt	6,880,248
Long-term debt payable, end of year	\$ 32,239,676

Developers within the District have constructed water, sewer, drainage and road facilities on behalf of the District under terms of contracts with the District. The District has agreed to purchase these facilities from the proceeds of future bond issues subject to the approval of the Commission. As of March 31, 2018, a liability for developer-constructed capital assets of \$23,419,923 was recorded in the government-wide financial statements.

At March 31, 2018, the District had \$138,970,000 of unlimited tax bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District, \$17,550,000 for financing and constructing recreational facilities within the District and \$51,815,000 for financing and constructing roads within the District.

The District's bonds are not rated.

**Galveston County Municipal Utility District No. 56**  
**Management's Discussion and Analysis (Continued)**  
**March 31, 2018**

**Other Relevant Factors**

Contingencies

Developers of the District are constructing water, sewer, drainage, roads and recreational facilities within the boundaries of the District. The District has agreed to reimburse the developers for a portion of these costs, plus interest, from the proceeds of future bond sales, to the extent approved by the Commission. The District's engineer has stated that current construction contract amounts are approximately \$5,130,000. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Economic Dependency

The District's developers own the majority of the taxable property in the District. The District's ability to meet its obligations is dependent on the developers' ability to pay property taxes.

Since inception, the developers have advanced \$63,753, net of repayments, to the District for operations. The District does not have sufficient funds or anticipated revenues sufficient to liquidate these advances during the forthcoming fiscal year. These advances have been recorded as liabilities in the government-wide financial statements.

**Galveston County Municipal Utility District No. 56**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**March 31, 2018**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Assets</b>						
Cash	\$ 362,612	\$ 350,159	\$ 243,886	\$ 956,657	\$ -	\$ 956,657
Property taxes receivable	3,952	-	-	3,952	-	3,952
Accrued penalty and interest	-	-	-	-	356	356
Prepaid expenditures	287	-	-	287	-	287
Capital assets:						
Land and improvements	-	-	-	-	2,457,930	2,457,930
Total assets	<u>\$ 366,851</u>	<u>\$ 350,159</u>	<u>\$ 243,886</u>	<u>\$ 960,896</u>	<u>\$ 2,458,286</u>	<u>\$ 3,419,182</u>
<b>Liabilities</b>						
Accounts payable	\$ 15,445	\$ -	\$ -	\$ 15,445	\$ -	\$ 15,445
Accrued interest payable	-	9,457	-	9,457	94,970	104,427
Long-term liabilities, due after one year	-	-	-	-	32,239,676	32,239,676
Total liabilities	<u>15,445</u>	<u>9,457</u>	<u>0</u>	<u>24,902</u>	<u>32,334,646</u>	<u>32,359,548</u>
<b>Deferred Inflows of Resources</b>						
Deferred property tax revenues	<u>3,952</u>	<u>0</u>	<u>0</u>	<u>3,952</u>	<u>(3,952)</u>	<u>0</u>
<b>Fund Balances/Net Position</b>						
Fund balances:						
Nonspendable, prepaid expenditures	287	-	-	287	(287)	-
Restricted :						
Unlimited tax bonds	-	340,702	-	340,702	(340,702)	-
Roads	-	-	243,886	243,886	(243,886)	-
Unassigned fund balances	<u>347,167</u>	<u>-</u>	<u>-</u>	<u>347,167</u>	<u>(347,167)</u>	<u>-</u>
Total fund balances	<u>347,454</u>	<u>340,702</u>	<u>243,886</u>	<u>932,042</u>	<u>(932,042)</u>	<u>0</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 366,851</u>	<u>\$ 350,159</u>	<u>\$ 243,886</u>	<u>\$ 960,896</u>		
Net position:						
Net investment in capital assets					(29,197,440)	(29,197,440)
Restricted for capital projects					40	40
Unrestricted net position					<u>257,034</u>	<u>257,034</u>
Total net position					<u>\$ (28,940,366)</u>	<u>\$ (28,940,366)</u>

**Galveston County Municipal Utility District No. 56**  
**Statement of Activities and Governmental Funds Revenues,**  
**Expenditures and Changes in Fund Balances**  
**Year Ended March 31, 2018**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
<b>Revenues</b>						
Property taxes	\$ 408,348	\$ -	\$ -	\$ 408,348	\$ (15,184)	\$ 393,164
Penalty and interest	3,222	-	-	3,222	(1,366)	1,856
Investment income	300	314	393	1,007	-	1,007
Other income	235	-	-	235	-	235
Total revenues	<u>412,105</u>	<u>314</u>	<u>393</u>	<u>412,812</u>	<u>(16,550)</u>	<u>396,262</u>
<b>Expenditures/Expenses</b>						
Service operations:						
Professional fees	114,692	-	-	114,692	177,409	292,101
Contracted services	17,127	-	-	17,127	15,500	32,627
Repairs and maintenance	43,356	-	-	43,356	-	43,356
Other expenditures	24,467	72	353	24,892	-	24,892
Capital outlay	66,086	-	7,672,976	7,739,062	(7,739,062)	-
Conveyance of capital assets	-	-	-	-	10,835,110	10,835,110
Debt service:						
Principal retirement	-	-	3,235,000	3,235,000	(3,235,000)	-
Interest and fees	-	-	64,523	64,523	94,970	159,493
Debt issuance costs	44,788	-	283,187	327,975	-	327,975
Total expenditures/expenses	<u>310,516</u>	<u>72</u>	<u>11,256,039</u>	<u>11,566,627</u>	<u>148,927</u>	<u>11,715,554</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>						
	<u>101,589</u>	<u>242</u>	<u>(11,255,646)</u>	<u>(11,153,815)</u>	<u>(165,477)</u>	
<b>Other Financing Sources (Uses)</b>						
Interfund transfers in (out)	2,250	-	(2,250)	-	-	
Repayment of developer advances	-	-	(148,758)	(148,758)	148,758	
General obligation bonds issued	-	340,460	4,459,540	4,800,000	(4,800,000)	
Discount on debt issued	-	-	(144,000)	(144,000)	144,000	
Bond anticipation notes issued	-	-	7,335,000	7,335,000	(7,335,000)	
Total other financing sources	<u>2,250</u>	<u>340,460</u>	<u>11,499,532</u>	<u>11,842,242</u>	<u>(11,842,242)</u>	
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>						
	<u>103,839</u>	<u>340,702</u>	<u>243,886</u>	<u>688,427</u>	<u>(688,427)</u>	
<b>Change in Net Position</b>					<u>(11,319,292)</u>	<u>(11,319,292)</u>
<b>Fund Balances/Net Position</b>						
Beginning of year	243,615	-	-	243,615	-	(17,621,074)
End of year	<u>\$ 347,454</u>	<u>\$ 340,702</u>	<u>\$ 243,886</u>	<u>\$ 932,042</u>	<u>\$ 0</u>	<u>\$ (28,940,366)</u>

# Galveston County Municipal Utility District No. 56

## Notes to Financial Statements

### March 31, 2018

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

Galveston County Municipal Utility District No. 56 (the District) was created by an order of the Texas Commission on Environmental Quality (the Commission) effective February 21, 2007 (inception), in accordance with the Texas Water Code, Chapter 54. The District's Board of Directors (the Board) held its first meeting, an organizational meeting, on July 23, 2007. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance and construct waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District. All services are provided by the City of Texas City (the City).

The District is governed by the Board consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

#### ***Reporting Entity***

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

#### ***Government-wide and Fund Financial Statements***

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, wastewater, drainage and other related services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.

# Galveston County Municipal Utility District No. 56

## Notes to Financial Statements

### March 31, 2018

The fund financial statements provide information about the District's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the District.

The District presents the following major governmental fund:

*General Fund* - The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes and interest income.

*Debt Service Fund* - The debt service fund is used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest related costs, as well as the financial resources being accumulated for future debt service.

*Capital Projects Fund* - The capital projects fund is used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

#### **Fund Balance – Governmental Fund**

The fund balance for the District's governmental fund can be displayed in up to five components:

*Nonspendable* – Amounts that are not in a spendable form or are required to be maintained intact.

*Restricted* – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

*Committed* – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

*Assigned* – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

*Unassigned* – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**Galveston County Municipal Utility District No. 56**  
**Notes to Financial Statements**  
**March 31, 2018**

***Measurement Focus and Basis of Accounting***

**Government-wide Financial Statements**

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as liabilities.

**Fund Financial Statements**

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The District considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, charges for services and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

***Deferred Outflows and Inflows of Resources***

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

**Galveston County Municipal Utility District No. 56**  
**Notes to Financial Statements**  
**March 31, 2018**

***Interfund Transactions***

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

***Pension Costs***

The District does not participate in a pension plan and, therefore, has no pension costs.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

***Property Taxes***

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the year ended March 31, 2018, include collections during the current period or within 60 days of year-end related to the 2017 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's year ended March 31, 2018, the 2017 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

***Capital Assets***

Pursuant to an agreement with the City, the District conveys title of the majority of its capital assets to the City upon completion.



# Galveston County Municipal Utility District No. 56

## Notes to Financial Statements

March 31, 2018

### **Debt Issuance Costs**

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

### **Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **Net Position/Fund Balances**

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

When both restricted and unrestricted resources are available for use, generally, it is the District's policy to use restricted resources first.

### **Reconciliation of Government-wide and Fund Financial Statements**

Amounts reported for net position of governmental activities in the statement of net position and fund balances in the governmental funds balance sheet are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ 2,457,930
Property tax revenue recognition and the related reduction of deferred inflows of resources, are subject to availability of funds in the fund financial statements.	3,952
Penalty and interest on delinquent taxes is not receivable in the current period and is not reportable in the funds.	356
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	(94,970)

**Galveston County Municipal Utility District No. 56**  
**Notes to Financial Statements**  
**March 31, 2018**

Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	\$ (32,239,676)
Adjustment to fund balances to arrive at net position	\$ (29,872,408)

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balances in the governmental funds statement of revenues, expenditures and changes in fund balances because:

Change in fund balances.	\$ 688,427
Governmental funds report capital outlays as expenditures. However, for the government-wide financial statements, due to a utility agreement with the City, all capital assets constructed by the District are conveyed to the City upon completion. This is the amount by which conveyance of capital assets to the City and non-capitalized costs exceeded capital outlay expenditures in the current year.	(3,288,957)
Governmental funds report developer advances as other financing sources or uses as amounts are received or paid. However, for the government-wide financial statements, these amounts are recorded as an increase or decrease in due to developer.	148,758
Governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	144,000
Governmental funds report proceeds from the sale of bonds and bond anticipation notes because they provide current financial resources to governmental funds. Principal payments on debt are recorded as expenditures. None of these transactions, however, have any effect on net position.	(8,900,000)
Revenues collected in the current year, which have previously been reported in the statement of activities, are reported as revenues in the governmental funds.	(16,550)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(94,970)
Change in net position of governmental activities.	\$ (11,319,292)

**Galveston County Municipal Utility District No. 56**  
**Notes to Financial Statements**  
**March 31, 2018**

**Note 2: Deposits, Investments and Investment Income**

***Deposits***

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

At March 31, 2018, none of the District's bank balances were exposed to custodial credit risk.

***Investments***

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," certificates of deposit of financial institutions domiciled in Texas, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

At March 31, 2018, the District had no investments.

**Note 3: Capital Assets**

A summary of changes in capital assets for the year ended March 31, 2018, is presented below:

<b>Governmental Activities</b>	<b>Balances, Beginning of Year</b>	<b>Additions</b>	<b>Balances, End of Year</b>
Capital assets, non-depreciable:			
Land and improvements	\$ 0	\$ 2,457,930	\$ 2,457,930

**Galveston County Municipal Utility District No. 56**  
**Notes to Financial Statements**  
**March 31, 2018**

**Note 4: Long-term Liabilities**

Changes in long-term liabilities for the year ended March 31, 2018, were as follows:

<b>Governmental Activities</b>	<b>Balances, Beginning of Year</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balances, End of Year</b>	<b>Amounts Due in One Year</b>
Bonds payable:					
General obligation bonds	\$ -	\$ 4,800,000	\$ -	\$ 4,800,000	\$ -
Less discounts on bonds	-	144,000	-	144,000	-
	0	4,656,000	0	4,656,000	0
Bond anticipation notes	-	7,335,000	3,235,000	4,100,000	-
Developer advances	212,511	-	148,758	63,753	-
Due to developer	17,673,036	9,243,377	3,496,490	23,419,923	-
 Total governmental activities long-term liabilities	 \$ 17,885,547	 \$ 21,234,377	 \$ 6,880,248	 \$ 32,239,676	 \$ 0

**General Obligation Bonds**

	<b>Road Series 2017</b>
Amount outstanding, March 31, 2018	\$4,800,000
Interest rates	2.50% to 4.00%
Maturity dates, serially beginning/ending	December 1, 2019/2043
Interest payment dates	June 1/December 1
Callable date*	December 1, 2023

\*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

**Annual Debt Service Requirements**

The following schedule show the annual debt service requirements to pay principal and interest on general obligations bonds outstanding at March 31, 2018.

**Galveston County Municipal Utility District No. 56**  
**Notes to Financial Statements**  
**March 31, 2018**

Year	Principal	Interest	Total
2019	\$ -	\$ 184,416	\$ 184,416
2020	115,000	170,230	285,230
2021	120,000	167,355	287,355
2022	125,000	164,355	289,355
2023	130,000	161,230	291,230
2024-2028	730,000	750,900	1,480,900
2029-2033	885,000	627,375	1,512,375
2034-2038	1,080,000	454,370	1,534,370
2039-2043	1,320,000	221,400	1,541,400
2044	295,000	11,800	306,800
Total	<u>\$ 4,800,000</u>	<u>\$ 2,913,431</u>	<u>\$ 7,713,431</u>

The bonds are payable from the proceeds of an ad valorem tax levied upon all property within the District subject to taxation, without limitation as to rate or amount.

Bonds voted – water, sewer and drainage facilities	\$ 138,970,000
Bonds voted – recreational facilities	17,550,000
Bonds voted - roads	56,615,000
Bonds sold – roads	4,800,000

***Due to Developers***

Developers of the District have constructed facilities on behalf of the District. The District has agreed to reimburse the developers for these construction costs and interest to the extent approved by the Commission. The District's engineer estimates reimbursable costs for completed projects are \$23,419,923. The District has agreed to reimburse these amounts plus interest to the extent approved by the Commission from the proceeds of future bond sales. These amounts have been recorded in the financial statements as long-term liabilities.

***Developer Advances***

Developers of the District have advanced \$63,753, net of repayments, to the District for operating expenses. The District has agreed to pay these amounts, plus interest, to the extent approved by the Commission from the proceeds of future bond sales. These amounts have been recorded in the financial statements as long-term liabilities. The District is currently unable to estimate when bonds will be issued to pay this liability.

**Galveston County Municipal Utility District No. 56**  
**Notes to Financial Statements**  
**March 31, 2018**

***Bond Anticipation Notes***

On April 3, 2017, the District issued its Series 2017 Bond Anticipation Note in the amount of \$3,235,000 at an interest rate of 3.25 percent. The note is a special limited obligation of the District and is payable solely from proceeds from the sale of bonds. During the current year, the District issued road bonds and redeemed the Series 2017 bond anticipation note.

On December 21, 2017, the District issued its Series 2017A Bond Anticipation Note in the amount of \$4,100,000. The note is dated December 22, 2017 and bears interest at the rate of 3.00 percent and matures December 21, 2018, unless called for early redemption. The note is a special limited obligation of the District and is payable solely from proceeds from the sale of bonds and, therefore, has been excluded from the current portion of long-term liabilities.

**Note 5: Significant Bond Resolution and Commission Requirements**

- A. The Bond Resolution for unlimited tax bonds requires that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended March 31, 2018, the District did not levy an ad valorem debt service tax. The interest and principal requirements to be paid from available debt service fund resources are \$184,416.
- B. In accordance with the Series 2017 Bond Resolution, a portion of the bond proceeds was deposited into the debt service fund and reserved for the payment of bond interest during the construction period. The bond interest is reduced as the interest is paid.

Bond interest reserve, beginning of year	\$	-
Additions--Interest appropriated from Series 2017 Road bond proceeds		340,460
Bond interest reserve, end of year	\$	340,460

**Note 6: Maintenance Taxes**

At an election held November 6, 2007, voters authorized a maintenance tax not to exceed \$1.50 per \$100 valuation on all property within the District subject to taxation. During the year ended March 31, 2018, the District levied an ad valorem maintenance tax at the rate of \$1.000 per \$100 of assessed valuation, which resulted in a tax levy of \$393,164 on the taxable valuation of \$39,316,422 for the 2017 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

**Galveston County Municipal Utility District No. 56**  
**Notes to Financial Statements**  
**March 31, 2018**

At an election held May 7, 2016, voters authorized a road maintenance tax not to exceed \$0.25 per \$100 valuation on all property within the District subject to taxation. During the year ended March 31, 2018, the District did not levy an ad valorem road maintenance tax for the 2017 tax year. Any future road maintenance tax will be used by the general fund to pay expenditures for maintenance of certain roads within the District.

**Note 7: Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

**Note 8: Contingencies**

Developers of the District are constructing water, sewer, drainage, roads and recreational facilities within the boundaries of the District. The District has agreed to reimburse the developers for a portion of these costs, plus interest, from the proceeds of future bond sales, to the extent approved by the Commission. The District's engineer has stated that current construction contract amounts are approximately \$5,130,000. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

**Note 9: Economic Dependency**

The District's developers own the majority of the taxable property in the District. The District's ability to meet its obligations is dependent on the developers' ability to pay property taxes.

Since inception, the developers have advanced \$63,753, net of repayments, to the District for operations. The District does not have sufficient funds or anticipated revenues sufficient to liquidate these advances during the forthcoming fiscal year. These advances have been recorded as liabilities in the government-wide financial statements.

## **Required Supplementary Information**



**Galveston County Municipal Utility District No. 56**  
**Budgetary Comparison Schedule – General Fund**  
**Year Ended March 31, 2018**

	<b>Original Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Property taxes	\$ 300,000	\$ 408,348	\$ 108,348
Penalty and interest	-	3,222	3,222
Investment income	-	300	300
Other income	-	235	235
	<hr/>	<hr/>	<hr/>
Total revenues	300,000	412,105	112,105
	<hr/>	<hr/>	<hr/>
<b>Expenditures</b>			
Service operations:			
Professional fees	115,000	114,692	308
Contracted services	7,500	17,127	(9,627)
Repairs and maintenance	50,000	43,356	6,644
Other expenditures	23,265	24,467	(1,202)
Capital outlay	-	66,086	(66,086)
Debt service, debt issuance costs	-	44,788	(44,788)
	<hr/>	<hr/>	<hr/>
Total expenditures	195,765	310,516	(114,751)
	<hr/>	<hr/>	<hr/>
<b>Excess of Revenues Over Expenditures</b>	104,235	101,589	(2,646)
	<hr/>	<hr/>	<hr/>
<b>Other Financing Sources</b>			
Interfund transfers in	-	2,250	2,250
	<hr/>	<hr/>	<hr/>
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	104,235	103,839	(396)
	<hr/>	<hr/>	<hr/>
<b>Fund Balance, Beginning of Year</b>	243,615	243,615	-
	<hr/>	<hr/>	<hr/>
<b>Fund Balance, End of Year</b>	\$ 347,850	\$ 347,454	\$ (396)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**Galveston County Municipal Utility District No. 56**  
**Notes to Required Supplementary Information**  
**March 31, 2018**

***Budgets and Budgetary Accounting***

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was not amended during fiscal 2018.

The District prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedule - General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

## **Other Information**

**Galveston County Municipal Utility District No. 56**  
**Other Schedules Included Within This Report**  
**March 31, 2018**

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] Notes Required by the Water District Accounting Manual  
See "Notes to Financial Statements," Pages 11-21
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [ ] Schedule of Temporary Investments – Not Applicable
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and  
Debt Service Fund
- [X] Board Members, Key Personnel and Consultants

**Galveston County Municipal Utility District No. 56**  
**Schedule of Services and Rates**  
**Year Ended March 31, 2018**

1. Services provided by the District:

- |   |   |   |
|---|---|---|
| <input type="checkbox"/> Retail Water   | <input type="checkbox"/> Wholesale Water      | <input type="checkbox"/> Drainage         |
| <input type="checkbox"/> Retail Wastewater  | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Irrigation       |
| <input checked="" type="checkbox"/> Parks/Recreation  | <input type="checkbox"/> Fire Protection      | <input type="checkbox"/> Security         |
| <input type="checkbox"/> Solid Waste/Garbage  | <input type="checkbox"/> Flood Control        | <input checked="" type="checkbox"/> Roads |
| <input type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect) |   |   |
| <input checked="" type="checkbox"/> Other <u>District services are provided by the City of Texas City</u>                             |   |   |
-

**Galveston County Municipal Utility District No. 56**  
**Schedule of General Fund Expenditures**  
**Year Ended March 31, 2018**

<b>Personnel (including benefits)</b>		\$	-
<b>Professional Fees</b>			
Auditing	\$ 8,300		
Legal	82,456		
Engineering	23,936		
Financial advisor	<u>-</u>		114,692
<b>Purchased Services for Resale</b>			
Bulk water and wastewater service purchases			-
<b>Regional Water Fee</b>			-
<b>Contracted Services</b>			
Bookkeeping	12,113		
General manager	-		
Appraisal district	1,303		
Tax collector	3,711		
Security	-		
Other contracted services	<u>-</u>		17,127
<b>Utilities</b>			-
<b>Repairs and Maintenance</b>			43,356
<b>Administrative Expenditures</b>			
Directors' fees	8,550		
Office supplies	1,082		
Insurance	2,705		
Other administrative expenditures	<u>12,130</u>		24,467
<b>Capital Outlay</b>			
Capitalized assets	-		
Expenditures not capitalized	<u>66,086</u>		66,086
<b>Tap Connection Expenditures</b>			-
<b>Solid Waste Disposal</b>			-
<b>Fire Fighting</b>			-
<b>Parks and Recreation</b>			-
<b>Other Expenditures</b>			<u>44,788</u>
Total expenditures		<u>\$</u>	<u>310,516</u>

**Galveston County Municipal Utility District No. 56**  
**Analysis of Taxes Levied and Receivable**  
**Year Ended March 31, 2018**

	<b>Maintenance Taxes</b>
<b>Receivable, Beginning of Year</b>	\$ 19,136
<b>2017 Original Tax Levy</b>	392,613
Additions and corrections	551
Adjusted tax levy	393,164
Total to be accounted for	412,300
Tax collections: Current year	(389,212)
Prior years	(19,136)
Receivable, end of year	\$ 3,952
 <b>Receivable, by Years</b>	
2017	\$ 3,952

**Galveston County Municipal Utility District No. 56**  
**Analysis of Taxes Levied and Receivable (Continued)**  
**Year Ended March 31, 2018**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Property Valuations</b>				
Land	\$ 38,966,180	\$ 32,601,450	\$ 7,842,090	\$ 5,891,250
Improvements	2,611,000	46,920	56,920	-
Exemptions	<u>(2,260,758)</u>	<u>(2,284,190)</u>	<u>(2,284,700)</u>	<u>(2,285,210)</u>
Total property valuations	<u>\$ 39,316,422</u>	<u>\$ 30,364,180</u>	<u>\$ 5,614,310</u>	<u>\$ 3,606,040</u>
<b>Tax Rates per \$100 Valuation</b>				
Maintenance tax rates*	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>
<b>Tax Levy</b>				
	<u>\$ 393,164</u>	<u>\$ 303,642</u>	<u>\$ 56,143</u>	<u>\$ 36,060</u>
<b>Percent of Taxes Collected to Taxes Levied**</b>				
	<u>99%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

\*Maximum tax rate approved by voters: \$1.50 on November 6, 2007

\*\*Calculated as taxes collected for a tax year divided by taxes levied for that tax year.



**Galveston County Municipal Utility District No. 56**  
**Schedule of Long-term Debt Service Requirements by Years**  
**March 31, 2018**

Due During Fiscal Years Ending March 31	Road Series 2017		
	Principal Due December 1,	Interest Due June 1, December 1	Total
2019	\$ -	\$ 184,416	\$ 184,416
2020	115,000	170,230	285,230
2021	120,000	167,355	287,355
2022	125,000	164,355	289,355
2023	130,000	161,230	291,230
2024	135,000	157,980	292,980
2025	140,000	154,470	294,470
2026	145,000	150,550	295,550
2027	150,000	146,200	296,200
2028	160,000	141,700	301,700
2029	165,000	136,740	301,740
2030	170,000	131,460	301,460
2031	175,000	125,850	300,850
2032	185,000	119,900	304,900
2033	190,000	113,425	303,425
2034	200,000	106,585	306,585
2035	205,000	99,185	304,185
2036	215,000	91,600	306,600
2037	225,000	83,000	308,000
2038	235,000	74,000	309,000
2039	245,000	64,600	309,600
2040	255,000	54,800	309,800
2041	260,000	44,600	304,600
2042	275,000	34,200	309,200
2043	285,000	23,200	308,200
2044	295,000	11,800	306,800
Totals	<u>\$ 4,800,000</u>	<u>\$ 2,913,431</u>	<u>\$ 7,713,431</u>

**Galveston County Municipal Utility District No. 56**  
**Changes in Long-term Bonded Debt**  
**Year Ended March 31, 2018**

	<b>Bond Issue</b>
	<b>Road</b>
	<b>Series 2017</b>
Interest rates	2.50% to 4.00%
Dates interest payable	June 1/ December 1
Maturity dates	December 1, 2019/2043
Bonds outstanding, beginning of the current year	\$ -
Bonds sold during the current year	4,800,000
Retirements, principal	-
Bonds outstanding, end of current year	4,800,000
Interest paid during the current year	\$ 0

Paying agent's name and address:

**Series 2017** - New York Mellon Trust Company, N.A., Dallas, Texas

Bond authority:	<b>Tax Bonds</b>	<b>Other Bonds</b>	<b>Refunding Bonds</b>
Amount authorized by voters	\$ 138,970,000	\$ 74,165,000	0
Amount issued	\$ -	\$ 4,800,000	0
Remaining to be issued	\$ 138,970,000	\$ 69,365,000	0
Debt service fund cash and temporary investment balances as of March 31, 2018:	\$ 350,159		
Average annual debt service payment (principal and interest) for remaining term of all debt:	\$ 296,670		

**Galveston County Municipal Utility District No. 56**  
**Comparative Schedule of Revenues and Expenditures – General Fund**  
**Four Years Ended March 31,**

	Amounts			
	2018	2017	2016	2015
<b>General Fund</b>				
<b>Revenues</b>				
Property taxes	\$ 408,348	\$ 284,506	\$ 56,143	\$ 36,060
Penalty and interest	3,222	1,426	283	-
Investment income	300	58	22	5
Other income	235	-	-	-
Total revenues	<u>412,105</u>	<u>285,990</u>	<u>56,448</u>	<u>36,065</u>
<b>Expenditures</b>				
Service operations:				
Professional fees	114,692	68,868	72,354	91,739
Contracted services	17,127	9,946	12,019	10,861
Repairs and maintenance	43,356	4,939	-	-
Other expenditures	24,467	12,586	13,688	49,769
Capital outlay	66,086	630	-	-
Debt service, debt issuance costs	44,788	-	-	-
Total expenditures	<u>310,516</u>	<u>96,969</u>	<u>98,061</u>	<u>152,369</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>101,589</u>	<u>189,021</u>	<u>(41,613)</u>	<u>(116,304)</u>
<b>Other Financing Sources</b>				
Interfund transfers in	2,250	-	-	-
Developer advances received	-	6,000	58,500	148,011
Total other financing sources	<u>2,250</u>	<u>6,000</u>	<u>58,500</u>	<u>148,011</u>
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	103,839	195,021	16,887	31,707
<b>Fund Balance, Beginning of Year</b>	<u>243,615</u>	<u>48,594</u>	<u>31,707</u>	<u>-</u>
<b>Fund Balance, End of Year</b>	<u>\$ 347,454</u>	<u>\$ 243,615</u>	<u>\$ 48,594</u>	<u>\$ 31,707</u>
<b>Total Active Retail Water Connections</b>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<b>Total Active Retail Wastewater Connections</b>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

**Percent of Total Fund Revenues**

<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
99.1 %	99.5 %	99.5 %	100.0 %
0.8	0.5	0.5	-
0.1	0.0	0.0	0.0
0.0	-	-	-
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
27.8	24.1	128.2	254.4
4.2	3.5	21.3	30.1
10.5	1.7	-	-
5.9	4.4	24.2	138.0
16.0	0.2	-	-
10.9	-	-	-
<u>75.3</u>	<u>33.9</u>	<u>173.7</u>	<u>422.5</u>
<u>24.7 %</u>	<u>66.1 %</u>	<u>(73.7) %</u>	<u>(322.5) %</u>

**Galveston County Municipal Utility District No. 56**  
**Schedule of Revenues and Expenditures – Debt Service Fund**  
**Year Ended March 31, 2018**

	<b>Amounts</b>	<b>Percent of Fund Total Revenues</b>
<b>Debt Service Fund</b>		
<b>Revenues</b>		
Investment income	\$ 314	100.0 %
<b>Expenditures</b>		
Other expenditures	72	22.9
<b>Excess of Revenues Over Expenditures</b>	242	77.1 %
<b>Other Financing Sources</b>		
General obligation bonds issued	340,460	
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	340,702	
<b>Fund Balance, Beginning of Year</b>	-	
<b>Fund Balance, End of Year</b>	\$ 340,702	

**Galveston County Municipal Utility District No. 56**  
**Board Members, Key Personnel and Consultants**  
**Year Ended March 31, 2018**

Complete District mailing address:	Galveston County Municipal Utility District No. 56 c/o Allen Boone Humphries Robinson LLP 3200 Southwest Freeway, Suite 2600 Houston, Texas 77027
District business telephone number:	713.860.6400
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	<u>October 11, 2017</u>
Limit on fees of office that a director may receive during a fiscal year:	<u>\$ 7,200</u>

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Brian Bare	Elected 05/14- 05/18	\$ 2,550	\$ 403	President
Kolby Beich	Elected 05/14- 05/18	1,500	0	Vice President
Philip Mullan	Elected 05/16- 05/20	2,100	105	Secretary
Chris Wilson	Appointed 01/15- 05/18	2,400	331	Assistant Secretary
Patricia M. Rannila	Elected 05/16- 04/17	0	0	Resigned

\*Fees are the amounts actually paid to a director during the District's fiscal year.

**Galveston County Municipal Utility District No. 56**  
**Board Members, Key Personnel and Consultants (Continued)**  
**Year Ended March 31, 2018**

<b>Consultants</b>	<b>Date Hired</b>	<b>Fees and Expense Reimbursements</b>	<b>Title</b>
Allen Boone Humphries Robinson, LLP	07/23/07	\$ 295,856	Attorney
Assessments of the Southwest, Inc.	10/01/07	4,627	Tax Assessor/ Collector
BKD, LLP	07/06/15	33,100	Auditor
Galveston Central Appraisal District	Legislative Action	1,303	Appraiser
Hilltop Securities Inc.	02/02/15	178,716	Financial Advisor
Jones & Carter, Inc.	05/05/14	76,099	Engineer
Myrtle Cruz, Inc.	10/01/07	22,474	Bookkeeper
<b>Investment Officer</b>			
Mary Jarmon	10/01/07	N/A	Bookkeeper

**APPENDIX B**

**Specimen Municipal Bond Insurance Policy**





## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.  
1633 Broadway, New York, N.Y. 10019  
(212) 974-0100