

OFFICIAL STATEMENT DATED APRIL 16, 2019

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS WILL BE EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE THEREOF, SUBJECT TO THE MATTERS DESCRIBED UNDER "TAX MATTERS – TAX EXEMPTION" HEREIN, WHICH INCLUDES A DISCUSSION OF THE OPINION OF BOND COUNSEL.

THE BONDS HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "TAX MATTERS – QUALIFIED TAX-EXEMPT OBLIGATIONS – PURCHASE OF THE BONDS BY FINANCIAL INSTITUTIONS."

NEW ISSUE – Book Entry Only

Insured Rating (AGM): S&P "AA" (stable outlook)
 Underlying Rating: S&P "A-"
 (see "MUNICIPAL BOND RATING" and
 "MUNICIPAL BOND INSURANCE" herein)

\$1,465,000

GALVESTON COUNTY WATER CONTROL & IMPROVEMENT DISTRICT NO. 8

(A political subdivision of the State of Texas located within Galveston County)

UNLIMITED TAX REFUNDING BONDS, SERIES 2019

Dated: April 1, 2019

Due: April 1, as shown below

Interest to accrue from Date of Delivery

Principal of the bonds described above (the "Bonds") will be payable at maturity or earlier redemption at the principal payment office of the Paying Agent/Registrar, initially Zions Bancorporation, National Association, Houston, Texas (the "Paying Agent/Registrar"). Interest on the Bonds will accrue from the date of delivery and will be payable October 1, 2019, and each April 1 and October 1 thereafter, until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued in fully registered form only in denominations of \$5,000 each or integral multiples thereof. The Bonds will be subject to redemption prior to maturity as described herein.

The Bonds will be registered and delivered only 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 (as defined herein under "BOOK-ENTRY-ONLY SYSTEM") of the Bonds will not receive physical certificates representing the Bonds but will receive a credit balance on the books of the DTC participants. 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. See "BOOK-ENTRY-ONLY SYSTEM."



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

MATURITY SCHEDULE

Due April 1	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)	Due April 1	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)
2020	\$ 40,000	5.500 %	1.830 %	364334 HM7	2025	\$ 55,000	5.500 %	2.260 %	364334 HS4
2021	40,000	5.500	1.850	364334 HN5	2026	55,000	2.000	2.440	364334 HT2
2022	45,000	5.500	1.920	364334 HP0	2027	60,000	2.250	2.580	364334 HU9
2023	45,000	5.500	2.010	364334 HQ8	2028	65,000	2.500	2.700	364334 HV7
2024	50,000	5.500	2.120	364334 HR6	2029	70,000 (c)	3.000	2.830	364334 HW5

\$225,000 Term Bonds due April 1, 2032 (c), 3.000% Interest Rate, 3.150% Initial Reoffering Yield (a), CUSIP Number (b) 364334 HZ8

\$265,000 Term Bonds due April 1, 2035 (c), 4.000% Interest Rate, 3.010% Initial Reoffering Yield (a), CUSIP Number (b) 364334 JC7

\$210,000 Term Bonds due April 1, 2037 (c), 4.000% Interest Rate, 3.110% Initial Reoffering Yield (a), CUSIP Number (b) 364334 JE3

\$240,000 Term Bonds due April 1, 2039 (c), 4.000% Interest Rate, 3.200% Initial Reoffering Yield (a), CUSIP Number (b) 364334 JG8

- (a) Initial reoffering yield represents the initial offering yield to the public, which has been established by the Underwriter for offers to the public and which may be subsequently changed by the Underwriter and is the sole responsibility of the Underwriter. The initial reoffering yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date.
- (b) CUSIP Numbers have been assigned to the Bonds by the 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) Bonds maturing on and after April 1, 2029 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 April 1, 2028, or on any date thereafter, at a price of par plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bonds (as defined herein) also are subject to mandatory sinking fund redemption as described herein. See "THE BONDS – Redemption Provisions."

The Bonds, when issued, will constitute valid and legally binding obligations of Galveston County Water Control & Improvement District No. 8 (the "District") and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Galveston County, the City of Santa Fe or any entity other than the District. Investment in the Bonds is subject to special investment considerations described herein. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Bacon & Wallace, L.L.P., Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by McCall, Parkhurst & Horton L.L.P., Houston, Texas, as Underwriter's Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about May 16, 2019.

SAMCO CAPITAL MARKETS, INC.

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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 representation 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, 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 Bacon & Wallace, L.L.P., 6363 Woodway, Suite 800, Houston, Texas 77057 upon payment of the costs of duplication.

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 relevant information actually comes to its attention, the other matters described in this Official Statement until delivery of the Bonds to the Underwriter, 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.”

OFFICIAL STATEMENT SUMMARY

The following information 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.

THE DISTRICT

- Description* The District was created by the State Board of Water Engineers (predecessor to the Texas Commission on Environmental Quality (the “Commission” or “TCEQ”) on November 10, 1945 and became active on January 13, 1959. The District presently contains approximately 1,198 acres of land and lies within the corporate limits of the City of Santa Fe. See “THE DISTRICT.”
- Status of Development* Land within the District has been developed for single-family residential, multi-family residential, commercial and industrial usage. As of March 1, 2019, the District consisted of 1,901 occupied single-family connections, 76 vacant single-family connections, 16 multi-family connections (consisting of 355 units), 198 commercial connections, and 6 school connections.
- Payment Record* The District has previously issued two series of combined unlimited tax and revenue bonds and seven series of unlimited tax bonds, of which an aggregate principal amount of \$6,046,000 is currently outstanding (the “Outstanding Bonds”). The District has never defaulted on the payment of principal and interest on the previously issued bonds.

THE FINANCING

- Description* Galveston County Water Control & Improvement District No. 8 Unlimited Tax Refunding Bonds, Series 2019, in the aggregate principal amount of \$1,465,000, will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof maturing on April 1 in the years and amounts set forth on the cover page hereof. Interest on the Bonds will accrue from the date of initial delivery at the rates per annum set forth on the cover page hereof, and will be payable October 1, 2019, and each April 1 and October 1 thereafter, until maturity or prior redemption. See “THE BONDS – General.”
- Book-Entry-Only System* The Depository Trust Company (“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 (“Registered Owner”). One fully-registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See “BOOK-ENTRY-ONLY SYSTEM.”
- Redemption Provisions* Bonds maturing on and after April 1, 2029 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 April 1, 2028 or on any date thereafter, at a price of par plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bonds (as defined herein) also are subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS – Redemption Provisions.”
- Use of Proceeds* Proceeds from the sale of the Bonds, along with other lawfully available debt service funds, if any, will be used to pay certain costs incurred in connection with the issuance of the Bonds and to currently refund a portion of the District’s Unlimited Tax Bonds, Series 2009 (the “Refunded Bonds”) in order to achieve annual and net present value savings in the District’s annual debt service expense. See “PLAN OF FINANCING – Refunded Bonds” and “– Sources and Uses of Funds.”
- Qualified Tax-Exempt Obligations* The District has designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See “TAX MATTERS – Qualified Tax-Exempt Obligations – Purchase of the Bonds by Financial Institutions.”

Authority for Issuance..... The Bonds are being issued pursuant to Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas (the “State”) including particularly Chapter 1207, Texas Government Code, as amended and Chapters 49 and 51, Texas Water Code, as amended, and a bond order (the “Bond Order”) passed by the Board of Directors (the “Board”) of the District on March 21, 2019, in which the Board delegated pricing of the Bonds and certain other matters to a “Pricing Officer” who approved and executed a pricing certificate (the “Pricing Certificate”) that completed the sale of the Bonds (the Order and the Pricing Certificate are jointly referred to as the “Bond Order”). See “THE BONDS – Authority for Issuance.”

Source of and

Security for Payment..... Principal and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax, without legal limit as to rate or amount, upon all taxable property within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Galveston County, the City of Santa Fe or any entity other than the District. See “THE BONDS – Source of and Security for Payment.”

Municipal Bond Rating and

Municipal Bond Insurance.... It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will assign a municipal bond rating of “AA” (stable outlook) 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”). S&P has also assigned an underlying rating of “A-” to the Bonds. An explanation of the ratings may be obtained from the S&P. See “INVESTMENT CONSIDERATIONS – Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE” and “APPENDIX B.”

Bond Counsel..... Bacon & Wallace. L.L.P., Houston, Texas.

Underwriter’s Counsel McCall, Parkhurst & Horton L.L.P., Houston, Texas.

Financial Advisor Post Oak Municipal Advisors LLC, Houston, Texas.

Paying Agent/Registrar..... Zions Bancorporation, National Association, Houston, Texas.

INVESTMENT CONSIDERATIONS

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

SELECTED FINANCIAL INFORMATION (UNAUDITED)

2018 Taxable Assessed Valuation.....	\$191,846,771 (a)
The Outstanding Bonds.....	\$6,046,000
Less: The Refunded Bonds.....	(1,465,000)
Plus: The Bonds.....	<u>1,465,000</u>
Gross Direct Debt Outstanding.....	\$6,046,000
Estimated Overlapping Debt.....	<u>13,304,252 (b)</u>
Gross Direct Debt Outstanding and Estimated Overlapping Debt.....	\$19,350,252
Ratio of Gross Direct Debt Outstanding to:	
2018 Taxable Assessed Valuation.....	3.15%
Ratio of Gross Direct Debt Outstanding and Estimated Overlapping Debt to:	
2018 Taxable Assessed Valuation.....	10.09%
<u>Funds Available</u> (Unaudited as of February 28, 2019):	
Capital Projects Fund.....	\$1,159,829
Operating Fund.....	\$1,025,579
Debt Service Fund.....	\$558,247 (c)
2018 Debt Service Tax Rate.....	\$0.1938
2018 Maintenance and Operations Tax Rate.....	<u>0.0975</u>
Total.....	\$0.2913
Average Annual Debt Service Requirement (2020-2040).....	\$428,223
Maximum Annual Debt Service Requirement (2039).....	\$508,975
Tax rate required to pay Average Annual Debt Service (2020-2040) at a 95% Collection Rate	
Based upon 2018 Taxable Assessed Valuation.....	\$0.2350
Tax rate required to pay Maximum Annual Debt Service (2039) at a 95% Collection Rate	
Based upon 2018 Taxable Assessed Valuation.....	\$0.2793
<u>Status of Water Connections</u> (as of March 1, 2019)	
Single-family residential occupied.....	1,901
Single-family residential vacant.....	76
Multifamily (355 units).....	16
Commercial.....	198
Other.....	<u>6</u>
Total.....	2,197
Estimated 2019 Population.....	7,364 (d)

(a) As certified by the Galveston Central Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."
(b) See "ESTIMATED OVERLAPPING DEBT AND OVERLAPPING TAXES."
(c) Neither the Bond Order nor Texas law requires that the District maintain any particular balance of funds.
(d) Based upon 3.5 persons per occupied single-family residence and 2.0 person per apartment unit.

OFFICIAL STATEMENT

\$1,465,000

GALVESTON COUNTY WATER CONTROL & IMPROVEMENT DISTRICT NO. 8

(A political subdivision of the State of Texas located within Galveston County)

UNLIMITED TAX REFUNDING BONDS, SERIES 2019

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Galveston County Water Control & Improvement District No. 8 (the “District”) of its \$1,465,000 Unlimited Tax Refunding Bonds, Series 2019 (the “Bonds”).

The Bonds are being issued pursuant to Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas (the “State”) including particularly Chapter 1207, Texas Government Code, as amended and Chapters 49 and 51, Texas Water Code, as amended, and a bond order passed by the Board of Directors (the “Board”) of the District on March 21, 2019, in which the Board delegated pricing of the Bonds and certain other matters to a “Pricing Officer” who approved and executed a pricing certificate (the “Pricing Certificate”) that completed the sale of the Bonds (the bond order and the Pricing Certificate are jointly referred to as the “Bond Order”). See “THE BONDS – Authority for Issuance.”

This Official Statement includes descriptions of, among others, the Bonds, the Bond Order and certain other information about the District. 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 Bacon & Wallace, L.L.P. (“Bond Counsel”), 6363 Woodway, Suite 800, Houston, Texas 77057, upon the payment of the costs of duplication thereof.

PLAN OF FINANCING

Purpose

At elections held on November 2, 1999, and May 9, 2009, voters of the District authorized the issuance of unlimited tax bonds, in an aggregate amount of \$6,796,000, for the purposes of purchasing and constructing a water, wastewater and storm drainage system in the District. The District has issued \$6,796,000 principal amount of such unlimited tax bonds, of which \$6,046,000 in principal amount is outstanding (the “Outstanding Bonds”).

Proceeds from the sale of the Bonds, along with other lawfully available debt service funds, if any, will be used to pay certain costs incurred in connection with the issuance of the Bonds and to currently refund a portion of the District’s Unlimited Tax Bonds, Series 2009 (the “Refunded Bonds”) in order to achieve annual and net present value savings in the District’s current annual debt service expense (see “Sources and Uses of Funds.”). A total of \$6,046,000 in principal amount of the Outstanding Bonds will remain outstanding after the issuance of the Bonds (the “Remaining Outstanding Bonds”).

Outstanding Bonds

The following table lists the original principal amount of Outstanding Bonds, and the current principal balance of the Outstanding Bonds, the Refunded Bonds and the Remaining Outstanding Bonds.

<u>Series</u>	<u>Original Principal Amount</u>	<u>Outstanding Bonds</u>	<u>Refunded Bonds</u>	<u>Remaining Outstanding Bonds</u>
2009	\$1,670,000	\$1,465,000	\$1,465,000	\$ --
2010	3,700,000	3,155,000	--	3,230,000
2017	1,426,000	1,426,000	--	1,426,000
Total	\$6,796,000	\$6,046,000	\$1,465,000	\$4,581,000
The Bonds				1,465,000
The Bonds and Remaining Outstanding Bonds				<u>\$6,046,000</u>

Refunded Bonds

The principal amounts and maturity dates of the Refunded Bonds are set forth as follows.

<u>Series</u>	<u>Maturity Date (April 1)</u>	<u>Outstanding Principal</u>	<u>Refunded Principal</u>
2009	2020 (a)	\$35,000	\$35,000
	2021 (a)	35,000	35,000
	2022 (a)	40,000	40,000
	2023 (a)	40,000	40,000
	2024 (a)	45,000	45,000
	2025 (a)	50,000	50,000
	2026 (b)	50,000	50,000
	2027 (b)	55,000	55,000
	2028 (b)	60,000	60,000
	2029 (b)	65,000	65,000
	2030 (b)	70,000	70,000
	2031 (c)	75,000	75,000
	2032 (c)	80,000	80,000
	2033 (c)	85,000	85,000
	2034 (c)	95,000	95,000
	2035 (c)	100,000	100,000
	2036 (c)	110,000	110,000
	2037 (c)	115,000	115,000
	2038 (c)	125,000	125,000
	2039 (c)	135,000	135,000
		<u>\$1,465,000</u>	<u>\$1,465,000</u>

Redemption Date: 5/17/2019

- (a) Represents mandatory sinking fund installment of a term bond maturing April 1, 2025.
(b) Represents mandatory sinking fund installment of a term bond maturing April 1, 2030.
(c) Represents mandatory sinking fund installment of a term bond maturing April 1, 2039.

Sources and Uses of Funds

Proceeds from the sale of the Bonds will be applied in the amounts shown below.

Sources of Funds

Principal Amount of the Bonds	\$1,465,000.00
Net Original Issue Premium	74,619.15
Transfer from Debt Service Fund	<u>16,690.63</u>
Total Sources of Funds	<u>\$1,556,309.78</u>

Uses of Funds

Deposit to Paying Agent for Refunded Bonds	\$1,474,694.35
Issuance Expenses and Underwriter's Discount (a)	<u>81,615.43</u>
Total Uses of Funds	<u>\$1,556,309.78</u>

- (a) Includes municipal bond insurance premium.

Payment of Refunded Bonds

The Refunded Bonds and the interest due thereon, are to be paid on the redemption date from funds to be deposited with Wells Fargo Bank, N.A., Minneapolis, Minnesota, as paying agent for the Refunded Bonds.

The Bond Order provides that from the proceeds of the sale of the Bonds and certain available funds of the District, if any, the District will deposit with the Paying Agent for the Refunded Bonds the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Paying Agent for the Refunded Bonds in a segregated payment account (the “Payment Account”). By the deposit of the cash with the Paying Agent for the Refunded Bonds and the making of irrevocable arrangements for the giving of notice of redemption of the Refunded Bonds, the terms of the prior order of the District securing payment of the Refunded Bonds shall have been satisfied and such Refunded Bonds will no longer be considered outstanding except for the payment out of so deposited, and the amounts so deposited in the Payment Account will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds.

DEBT SERVICE REQUIREMENTS

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$1,465,000 principal amount), plus the debt service on the Bonds.

Fiscal Year (12/31)	Outstanding Debt Service Requirements	Less: Refunded Debt Service	Plus: The Bonds			Total Debt Service Requirements
			Principal	Interest	Total	
2019	\$ 371,759 (a)	\$ 37,934	\$ -	\$ 21,244	\$ 21,244	\$ 371,759 (b)
2020	416,208	109,753	40,000	55,550	95,550	402,005
2021	412,836	107,522	40,000	53,350	93,350	398,664
2022	420,001	110,131	45,000	51,013	96,013	405,883
2023	421,564	107,581	45,000	48,538	93,538	407,520
2024	427,273	109,872	50,000	45,925	95,925	413,326
2025	427,789	111,844	55,000	43,038	98,038	413,983
2026	433,773	109,063	55,000	40,975	95,975	420,685
2027	434,544	111,569	60,000	39,750	99,750	422,725
2028	444,560	113,838	65,000	38,263	103,263	433,985
2029	448,699	115,869	70,000	36,400	106,400	439,230
2030	452,128	117,663	70,000	34,300	104,300	438,765
2031	459,701	119,125	75,000	32,125	107,125	447,701
2032	466,181	120,250	80,000	29,800	109,800	455,731
2033	471,691	121,125	80,000	27,000	107,000	457,566
2034	481,169	126,625	90,000	23,600	113,600	468,144
2035	489,500	126,750	95,000	19,900	114,900	477,650
2036	496,594	131,500	105,000	15,900	120,900	485,994
2037	502,350	130,875	105,000	11,700	116,700	488,175
2038	511,781	134,875	115,000	7,300	122,300	499,206
2039	519,850	138,375	125,000	2,500	127,500	508,975
2040	106,772	-	-	-	-	106,772
Total	\$ 9,616,721	\$ 2,412,138	\$ 1,465,000	\$ 678,169	\$ 2,143,169	\$ 9,364,443

Average Annual Debt Service Requirements (2020-2040).....	\$ 428,223
Maximum Annual Debt Service Requirement (2039).....	\$ 508,975

(a) Reflects prior principal and interest paid by the District on April 1, 2019.

(b) Includes the \$16,690.63 transfer from the District’s debt service fund. See “PLAN OF FINANCING – Sources and Uses of Funds.”

THE BONDS

General

Following is a description of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions, and provisions for the payment of the principal of and interest on the Bonds by the District.

The Bonds are dated April 1, 2019 and mature on April 1 in the years and amounts set forth on the cover page hereof. Interest on the Bonds accrues from the date of delivery at the rates per annum set forth on the cover hereof and is payable October 1, 2019, and each April 1 and October 1 thereafter, until maturity or prior redemption. Interest is computed based on a 360-day year of twelve 30-day months. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the owners thereof. Initially, principal of and interest on the Bonds will be payable by Zions Bancorporation, National Association, Houston, Texas (the “Paying Agent/Registrar,” “Paying Agent,” or “Registrar”) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM.”

Authority for Issuance

The Bonds are being issued pursuant to Article XVI, Section 59 of the Texas Constitution, the general laws of the State including particularly Chapter 1207, Texas Government Code, as amended and Chapters 49 and 51, Texas Water Code, as amended, and the Bond Order. Before the Bonds can be issued, the Attorney General of Texas must pass on 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.

Source of and Security for Payment

The Bonds (together with the Remaining Outstanding Bonds) are payable from and secured by a pledge of the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. See “TAXING PROCEDURES.” The Bonds involve certain elements of risk, and all prospective purchasers are urged to examine carefully this Official Statement with respect to the investment security of the Bonds.

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

Funds

In the Bond Order, the Debt Service Fund is confirmed, and the proceeds from all taxes levied, assessed and collected for and on account of the Bonds authorized by the Bond Order shall be deposited, as collected, in such fund.

No Arbitrage

The District will certify as of the date the Bonds are delivered and paid for that, based upon all facts and estimates now known or reasonably expected to be in existence on the date the Bonds are delivered and paid for, the District reasonably expects that the proceeds of the Bonds will not be used in a manner that would cause the Bonds, or any portion of the Bonds, to be “arbitrage bonds” under the Internal Revenue Code of 1986, as amended (the “Code”), and the regulations prescribed thereunder. Furthermore, all officers, employees, and agents of the District have been authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the District as of the date the Bonds are delivered and paid for. In particular, all or any officers of the District are authorized to certify to the facts and circumstances and reasonable expectations of the District on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the District covenants in the Bond Order that it shall make such use of the proceeds of the Bonds, regulate investment of proceeds of the Bonds, and take such other and further actions and follow such procedures, including, without limitation, calculating the yield on the Bonds, as may be required so that the Bonds shall not become “arbitrage bonds” under the Code and the regulations prescribed from time to time thereunder.

Redemption Provisions

Optional Redemption: The District reserves the right, at its option, to redeem the Bonds maturing on or after April 1, 2029 prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on April 1, 2028, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures. See “BOOK-ENTRY-ONLY SYSTEM.” Notice of each exercise of the reserved right of optional redemption shall be given by the Paying Agent/Registrar at least thirty (30) calendar days prior to the redemption date, in the manner specified in the Bond Order.

Mandatory Redemption: In addition to being subject to optional redemption, as provided above, the Bonds due on April 1 in each of the years 2032, 2035, 2037, and 2039 (the “Term Bonds”) are subject to mandatory sinking fund redemption by the District by lot or other customary random method (or by DTC in accordance with its procedures while the bonds are in Book-Entry-Only form) prior to scheduled maturity in the years (“Mandatory Redemption Dates”) and in the amounts set forth below, (subject to reduction, at the option of the District, by the amounts of any prior redemption or cancellations of such Bonds of such maturity) at a redemption price of par plus accrued interest to the date of redemption:

\$225,000 Term Bond Due April 1, 2032		\$265,000 Term Bond Due April 1, 2035	
<u>Mandatory Redemption Date (4/1)</u>	<u>Principal Amount</u>	<u>Mandatory Redemption Date (4/1)</u>	<u>Principal Amount</u>
2030	\$70,000	2033	\$80,000
2031	75,000	2034	90,000
2032*	80,000	2035*	95,000

\$210,000 Term Bond Due April 1, 2037		\$240,000 Term Bond Due April 1, 2039	
<u>Mandatory Redemption Date (4/1)</u>	<u>Principal Amount</u>	<u>Mandatory Redemption Date (4/1)</u>	<u>Principal Amount</u>
2036	\$105,000	2038	\$115,000
2037*	105,000	2039*	125,000

* Stated Maturity

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 fewer than all the Bonds outstanding within any one maturity 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 that would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Registration and Transfer

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the register at its principal payment office in Houston, Texas, 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 Order. While the Bonds are in the Book-Entry-Only system, the Bonds will be registered in the name of Cede & Co. and will not be transferred. See “BOOK-ENTRY-ONLY SYSTEM.”

Method of Payment of Principal and Interest

The Board has appointed Zions Bancorporation, National Association, Houston, Texas, having its principal corporate trust office and its principal payment office in Houston, Texas, as the initial Paying Agent/Registrar for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid to the Beneficial Owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM.”

Replacement of Paying Agent/Registrar

Provision is made in the Bond Order 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

The District currently has no authorized but unissued unlimited tax bonds. The Bond Order 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. See “INVESTMENT CONSIDERATIONS – Future Debt.”

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) preparation of a park plan; (b) authorization of park bonds by the qualified voters in the District; (c) approval of the park project and bonds by the TCEQ; and (d) approval of the bonds by the Attorney General of Texas. If the District does issue 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 District has not considered authorizing preparation of a park plan nor calling a park bond election at this time.

Pursuant to Chapter 54 of the Texas Water Code, a municipal utility district may petition the TCEQ for the power to issue bonds supported by property taxes to finance roads. Further, the District could seek approval by the Texas Legislature to acquire road powers. Before the District could issue such bonds, the District would be required to receive a grant of such power from the TCEQ or the State Legislature, authorization from the District’s voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. The District has not considered seeking “road powers” nor calling such an election at this time.

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

Consolidation

A district (such as 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, with the water and wastewater systems of districts with which it is consolidating as well as its liabilities (which would include the Bonds). No representation is made concerning the likelihood of consolidation, but the District currently is not contemplating consolidation.

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 Order, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Order, 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 Order. Except for mandamus, the Bond Order 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 Order 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 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 Order 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 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 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 pay 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. Because the Bond Order does not

contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with other such investments, notwithstanding the fact that such investments may not be of the same investment quality of those currently permitted under Texas law.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York, (“DTC”) while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District and the Financial Advisor believe the source of such information to be reliable, but neither of the District nor the Financial Advisor takes any responsibility for the accuracy or completeness thereof.

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities 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 the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

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

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 effect 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 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 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).

All payments 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 the Paying Agent/Registrar, 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 Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments 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/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent/Registrar. 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-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC

THE DISTRICT

General

The District is a water control and improvement district created by an order of the State Board of Water Engineers of Texas (predecessor agency to the TCEQ), adopted on November 10, 1945. The District, which became active on January 13, 1959, operates under Chapters 49 and 51 of the Texas Water Code and other general statutes applicable to water control and improvement districts. The District is located in the corporate limits of the City of Santa Fe, Texas (the "City of Santa Fe" or the "City") and within the boundaries of Santa Fe Independent School District.

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 parks and recreational facilities for the residents of the District, to contract for or employ its own peace officers and, after approval by the City, the Commission and the voters of the District, to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts.

The TCEQ exercises continuing supervisory jurisdiction over the District. The District is required to observe certain requirements of the City of Santa Fe which limit the purposes for which the District may sell bonds for the acquisition, construction, and improvement of waterworks, wastewater, and drainage facilities, fire-fighting facilities and recreational facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of Santa Fe of District construction plans; and permit connections only to platted lots and reserves which have been approved by the Planning Commission of the City of Santa Fe. Construction and operation of the District's drainage system are subject to the regulatory jurisdiction of additional government agencies. See "THE SYSTEM."

Status of Development

The District contains approximately 1,240 acres. Substantially all of the developable land in the District has been developed. The District is located in Galveston County, approximately 12 miles west of the City of Texas City, approximately 19 miles northwest of the City of Galveston, and wholly within the city limits of the City of Santa Fe. State Highway 6 bisects the District from southeast to northwest. The City of Santa Fe does not provide water or sewer services, and the District is charged with the responsibility of providing water and sewer services to users within the District's boundaries.

Residential/Multi-family Development: Land within the District has been developed for single-family residential and multi-family residential usage. As of March 1, 2019, the District consisted of 1,901 occupied single-family connections, 76 vacant single-family connections and 16 multi-family connections (consisting of 355 units).

Commercial Development: The District contains retail, commercial and light industrial development. There are 198 commercial connections in the District. Manufacturers located within the District are involved in the production of oil field tools, boat trailers, sheet metal and concrete products.

MANAGEMENT OF THE DISTRICT

Board of Directors

The District is governed by the Board of Directors, consisting of five directors, which has control over and management supervision of all affairs of the District. All of the Directors listed below reside within the District. Directors are elected by the voters within the District for four-year staggered terms. Directors' elections are held only in May of even numbered years. The Directors and Officers of the District are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
C.T. (Tommy) Anderson	President	May 2022
Max D. Tully	Vice President	May 2020
David Keith Tyner	Secretary/ Treasurer	May 2020
Bobby J. Wylie	Assistant Secretary/Treasurer	May 2022
William F. "Fritz" Barnett	Director	May 2022

District Management

The District provides its own utility system management, operating and bookkeeping services. The District employs 2 executive managers, 5 licensed operators, 3 service personnel and 3 office personnel. Executive management personnel is listed below:

<i>Bookkeeper/Office Manager:</i>	Dee Ann Hedgpath
<i>Superintendent:</i>	James Newman

The District provides a defined contribution benefit plan to its employees. The District contributes to the defined contribution pension plan, which provides retirement, disability and death benefits to plan members and their beneficiaries. During the fiscal year ended December 31, 2017, the District contributed \$55,450 to the plan, which was based on 12.07% of employees' salaries. See "APPENDIX A" for a description of the defined contribution benefit plan.

District Consultants

Bond Counsel and General Counsel: Bacon & Wallace, L.L.P. serves as Bond Counsel to the District. The fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. In addition, Bacon & Wallace, L.L.P. serves as general counsel to the District on matters other than the issuance of bonds.

Financial Advisor: Post Oak Municipal 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: As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the TCEQ. The District's financial statements for the year ended December 31, 2017 were audited by Knox Cox & Company, LLP, Sugar Land, Texas. See "APPENDIX A" for a copy of the District's December 31, 2017 financial statements.

Engineer: The District’s consulting engineer is Sander Engineering (the “Engineer”).

Tax Appraisal and Collections: The Galveston Central Appraisal District has the responsibility of appraising all property within the District. The District’s Tax Assessor/Collector is appointed by the Board of Directors of the District. Santa Fe Independent School District is currently serving in this capacity for the District. See “TAXING PROCEDURES.”

THE SYSTEM

Regulation

According to the Engineer, the District’s water supply and distribution, wastewater collection, and storm drainage facilities (collectively, the “System”) have been designed in accordance with accepted engineering practices and the current requirements of various entities having regulatory or supervisory jurisdiction over the construction and operation of such facilities. The construction of the System was required to be accomplished in accordance with the standards and specifications of such entities and is subject to inspection by each such entity. Operation of the System must be accomplished in accordance with the standards and requirements of such entities. The Commission exercises continuing supervisory authority over the District. Discharge of treated sewage is subject to the regulatory authority of the TCEQ and the U.S. Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of the Galveston County Flood Control District, the City of Santa Fe, Galveston County and, in some instances, the Commission. Galveston County and the City of Santa Fe also exercise regulatory jurisdiction over the System. The regulations and requirements of entities exercising regulatory jurisdiction over the System are subject to further development and revision which, in turn, could require additional expenditures by the District in order to achieve compliance. In particular, additional or revised requirements in connection with any permit for the wastewater treatment plant in which the District owns capacity beyond the criteria existing at the time of construction of the plant could result in the need to construct additional facilities in the future. The following descriptions are based upon information supplied by the District’s Engineer.

Water, Sanitary Sewer and Drainage Facilities

Source of Water Supply: The District purchases treated surface water from the Gulf Coast Water Authority (“GCWA”) under a contract that reserves a maximum capacity of 1,000,000 gallons per day (gpd). The contract with GCWA has a “take or pay” provision which requires that the District pay for 482,000 gpd whether or not that quantity is used. The District also has three wells with a total capacity of 1,627 gallons per minute (gpm) that are used as a stand-by and emergency water supply. The wells are permitted by the Harris-Galveston Subsidence District to pump up to 20% of the District’s annual water use or 20.0 million gallons per year. The District’s water system also includes a 15,000 gallon hydro-pneumatic tank, 697,000 gallons of ground storage, a 400,000 gallon elevated storage tank and 6 booster pumps, each with a capacity of 500 gpm. The District has received approval from the TCEQ for an Alternative Minimum Capacity Requirement that is 66% of the standard TCEQ requirements for potable systems. With the alternative requirements, the current system is sufficient to serve a total of 4,750 connections without additional construction. The District currently serves 2,125 connections.

Source of Wastewater Treatment: The District owns and operates a 1,500,000 gpd wastewater treatment plant. The wastewater treatment plant has the capacity to treat the waste from a total of approximately 5,000 connections.

Drainage: In general, storm water runoff is by sheet flow or swales from the land area to road side ditches. The road side ditches convey the storm water runoff to drainage ditches and natural channels in the District maintained and operated by either the Army Corps of Engineers or Galveston County Drainage District No. 1. The drainage ditches collect and convey the storm water runoff to Galveston Bay.

100-Year Flood Plain

Approximately 28.5 acres of developed land is located within the FEMA 100-year flood plain. Included in this developed acreage are residential homes that have been elevated to reduce the impact of flooding. Approximately 48 acres of undeveloped land are also located within the FEMA 100-year flood plain. This undeveloped acreage includes developable and undevelopable land. See “INVESTMENT CONSIDERATIONS—Hurricane Harvey.”

UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED

<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Amount Issued to Date</u>	<u>Amount Unissued</u>
11/02/99; 05/09/09	Water, Sanitary Sewer and Drainage	\$6,796,000	\$6,796,000	\$0

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2018 Taxable Assessed Valuation.....	\$191,846,771 (a)
 The Outstanding Bonds.....	 \$6,046,000
Less: The Refunded Bonds.....	(1,465,000)
Plus: The Bonds.....	1,465,000
Gross Direct Debt Outstanding.....	<u>\$6,046,000</u>
Estimated Overlapping Debt.....	<u>13,304,252 (b)</u>
Gross Direct Debt Outstanding and Estimated Overlapping Debt.....	\$19,350,252

Ratio of Gross Direct Debt Outstanding to:

2018 Taxable Assessed Valuation.....	3.15%
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Ratio of Gross Direct Debt Outstanding and Estimated Overlapping Debt to:

2018 Taxable Assessed Valuation.....	10.09%
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(a) As certified by the Galveston Central Appraisal District. See "TAXING PROCEDURES."

(b) See "ESTIMATED OVERLAPPING DEBT AND OVERLAPPING TAXES."

Cash and Investment Balances (Unaudited as of February 28, 2019)

Capital Projects Fund	Cash and Temporary Investments	\$1,159,829
Operating Fund	Cash and Temporary Investments	\$1,025,579
Debt Service Fund	Cash and Temporary Investments	\$558,247 (a)

(a) Neither Texas law nor the Bond Order requires the District to maintain any minimum balance in the Debt Service 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, as amended. 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's investment portfolio.

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ESTIMATED OVERLAPPING DEBT AND OVERLAPPING TAXES

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.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
College of the Mainland.....	\$14,500,000	02/28/19	1.79%	\$259,550
Galveston County.....	217,633,720	02/28/19	0.66%	1,436,383
Santa Fe ISD.....	84,625,000	02/28/19	12.84%	10,865,850
City of Santa Fe.....	2,870,000	02/28/19	25.87%	742,469
Total Estimated Overlapping Debt.....				\$13,304,252
The District.....	\$6,046,000 (a)	04/15/19	100.00%	6,046,000
Total Direct and Estimated Overlapping Debt.....				\$19,350,252

Ratio of Total Direct and Estimated Overlapping Debt to:

2018 Taxable Assessed Valuation..... 10.09%

(a) Includes the Bonds and excludes the Refunded Bonds.

Overlapping Taxes for 2018

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, 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 the taxes levied for the 2018 tax year by all entities overlapping the District and the District’s 2018 tax rate. No recognition is given to local assessments for civic association dues, fire department contributions or any other levy of entities other than political subdivisions.

	2018 Tax Rate per \$100 of Taxable Assessed Valuation
College of the Mainland.....	\$ 0.213000
Galveston County.....	0.532000
Santa Fe ISD.....	1.402000
City of Santa Fe.....	0.326000
Total Overlapping Tax Rate.....	\$ 2.473000
The District (a).....	0.291300
Total Tax Rate.....	\$ 2.764300

(a) The District has levied a total 2018 tax rate in the amount of \$0.2913 per \$100 of taxable assessed valuation with \$0.1938 allocated to debt service and \$0.0975 allocated to maintenance and operations. See “TAX DATA – Tax Rate Distribution.”

TAX DATA

Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. For the 2018 tax year, the Board levied a debt service tax in the amount of \$0.1938 per \$100 taxable assessed valuation. See “Tax Rate Distribution” and “Tax Roll Information” below.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District’s improvements, if such maintenance tax is authorized by vote of the District’s electors. Pursuant to an election held on November 2, 1999, the Board was authorized to levy such a maintenance tax in an amount not to exceed \$0.30 per \$100 of assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal and interest on the District’s Remaining Outstanding Bonds and the Bonds. For tax year 2018, the Board levied a maintenance tax in the amount of \$0.0975 per \$100 taxable assessed valuation. See “Tax Rate Distribution” below.

Tax Rate Distribution

	2018	2017	2016	2015	2014
Debt Service	\$ 0.1938	\$ 0.1760	\$ 0.1873	\$ 0.2009	\$ 0.2161
Maintenance and Operations	0.0975	0.0940	0.0612	0.0629	0.0639
Total	\$ 0.2913	\$ 0.2700	\$ 0.2485	\$ 0.2638	\$ 0.2800

Historical Tax Collections

The following statement of tax collections sets forth in condensed form the historical tax experience of the District. Such table has been prepared for inclusion herein based upon information obtained from the Tax Assessor/Collector. Reference is made to such statements and records for further and complete information. Differences in totals from others shown in this Official Statement are due to differences in dates of the data. See “Tax Roll Information” below.

Tax Year	Taxable Assessed Valuation (a)	Tax Rate	Tax Levy (b)	Total Collections as of February 28, 2019 (c)	
				Amount	Percent
2013	\$ 142,070,640	\$ 0.2937	\$ 417,261	\$415,402	99.55%
2014	148,815,525	0.2800	416,683	414,910	99.57%
2015	163,124,809	0.2638	430,323	427,510	99.35%
2016	174,813,947	0.2485	434,413	431,061	99.23%
2017	185,673,966	0.2700	501,320	494,606	98.66%
2018	191,846,771	0.2913	558,850	515,270	92.20%

- (a) As certified by the Galveston Central Appraisal District as of March 12, 2019. See “TAX DATA – Tax Roll Information” for gross appraised value, deferrals and exemptions granted by the District and the Galveston Central Appraisal District.
- (b) Represents actual tax levy, including any adjustments by the Galveston Central Appraisal, as of the date hereof.
- (c) Unaudited.

Tax Exemptions

As discussed in the section titled “TAXING PROCEDURES” in the Official Statement, certain property in the District may be exempt from taxation by the District. For tax year 2018, the District has granted a \$10,000 exemption for residential homesteads of persons who are disabled or 65 years of age or over, a \$12,000 exemption for residential homesteads who are disabled veterans, and a twenty-percent (20%) residential homestead exemption.

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) and 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.

Tax Roll Information

The District’s appraised 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 Taxable Assessed Valuations. Differences in totals may vary slightly from other information herein due to differences in dates of data. Taxes are levied on taxable value certified by the Galveston Central Appraisal District as of January 1 of each year.

	2018	2017	2016	2015	2014
Land	\$43,358,601	\$42,569,591	\$42,426,451	\$42,393,938	\$40,737,341
Improvements	196,767,667	196,843,347	187,610,375	164,756,559	140,656,116
Personal Property	15,556,511	15,229,141	14,827,431	16,833,482	16,739,293
(Exemptions)	<u>(63,836,008)</u>	<u>(68,968,113)</u>	<u>(70,050,310)</u>	<u>(60,859,170)</u>	<u>(49,317,225)</u>
Total Assessed Valuation	\$191,846,771	\$185,673,966	\$174,813,947	\$163,124,809	\$148,815,525

Principal Taxpayers

The following table represents the principal taxpayers, the type of property, the taxable assessed value of such property and such property’s certified assessed value as a percentage of the 2018 Taxable Assessed Valuation of \$191,846,771, which represents certified ownership as of January 1, 2018. Differences in totals may vary slightly from other information herein due to differences in dates of data.

Taxpayer	Type of Property	2018 Taxable Assessed Valuation	% of 2018 Taxable Assessed Valuation
Individual	Commercial & Retail	\$ 2,237,040	1.17%
CenterPoint Energy	Real Property	1,455,320	0.76%
The Village Manor	Multi-Family	1,300,000	0.68%
BNSF Railway Company	Real Property	1,107,646	0.58%
1330 Hwy 6 LLC	Commercial & Retail	1,073,250	0.56%
Comcast Houston LLC	Commercial	1,056,220	0.55%
Amoco Federal Cedit Union	Commercial	1,052,940	0.55%
Individual	Real Property	945,540	0.49%
Arlans Markets Inc.	Commercial & Retail	942,260	0.49%
FMTV LLC	Commercial	938,680	0.49%
Total		\$ 12,108,896	6.31%

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 Taxable Assessed Valuation of \$191,846,771. The calculations contained in the following table merely represent the tax rates required to pay principal and interest on the Bonds and the Remaining 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, and the sale of no additional bonds. See “DEBT SERVICE REQUIREMENTS” and “INVESTMENT CONSIDERATIONS – Possible Impact on District Tax Rates.”

Average annual debt service requirement (2020-2040).....	\$428,223
\$0.2350 tax rate on 2018 Taxable Assessed Valuation at 95% collections.....	\$428,298
Maximum annual debt service requirement (2039).....	\$508,975
\$0.2793 tax rate on 2018 Taxable Assessed Valuation at 95% collections.....	\$509,037

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 Order to levy such a tax from year to year as described more fully herein under “THE BONDS – Source of and Security for Payment.” Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and for the payment of certain contractual obligations. See “TAX DATA.”

Tax Code and County-Wide Appraisal District

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

The 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 County 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; travel trailers; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding 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 \$5,000 and \$12,000 depending on the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran’s residence 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 Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) (not less than \$5,000) 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 by May 1. For tax year 2018, the District has granted a twenty-percent (20%) residential homestead exemption. See "TAX DATA."

Freeport Goods and Goods-in-Transit Exemptions: 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 may designate all or part of the area within such county and within the District or the District as a reinvestment zone. Thereafter, Galveston County, the District, and the City of Santa Fe, 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 assessed valuation of property covered by the agreement over its assessed 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. 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 applicable 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. Generally, assessments under the Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Tax Code. In determining market value, either the replacement cost or the income or the market data method of valuation may be used, whichever is appropriate. Nevertheless, certain land may be appraised at less than market value under the Tax Code. Increases in the appraised value of residence homesteads are limited by the Texas Constitution to a cumulative 10 percent annual increase regardless of the market value of the property.

The 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 market value. The 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 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 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 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 such 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 applicable Appraisal District chooses formally to include such values on its appraisal roll.

Reappraisal of Property after Disaster

The Texas Tax Code provides that the governing body of a taxing unit located within an area declared to be a disaster area by the governor of the State of Texas may authorize reappraisal of all property damaged in the disaster at its market value immediately after the disaster. 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 of that year. Beginning on the date of the disaster and for the remainder of the year, the taxing unit assesses taxes on the reappraised market value of the property. The District did not authorize reappraisal following Hurricane Harvey.

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 Tax Code. The 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. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. 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 in writing 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 equal 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 under Texas law, 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 continues to accrue during the period of deferral.

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 each 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

“ESTIMATED OVERLAPPING DEBT AND OVERLAPPING TAXES – Overlapping Taxes for 2018.” 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 cost of suit and sale, 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 (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) or by bankruptcy proceedings which restrict the collection of taxpayer debts. See “INVESTMENT CONSIDERATIONS – Tax Collection Limitations and Foreclosure Remedies.”

Tax Payment Installments after Disaster

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 taxpayer 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.

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.

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WATER AND SEWER OPERATIONS

General

The Bonds and the Remaining Outstanding Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Net revenues, if any, derived from operation of the District's water and sewer system are not pledged to the payment of debt service. It is not anticipated that significant revenues, if any, will be available for the payment of debt service on the Bonds or the Remaining Outstanding Bonds.

Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and, in all instances, exclude depreciation. Such summary is based upon information obtained from the District's audited financial statements for the fiscal years 2014 through 2017 and from the District's bookkeeping records for the fiscal year 2018. Reference is made to such records and statements for further and more complete information.

	Fiscal Year Ended December 31				
GENERAL FUND	2018 (a)	2017	2016	2015	2014
Revenues:					
Water Service Charges	\$ 827,754	\$ 1,034,609	\$ 965,199	\$ 879,084	\$ 876,379
Sewer Service Charges	606,362	576,537	576,430	531,414	529,340
Property Taxes	171,516	106,848	114,911	81,995	95,203
Penalties and Interest	1,114	30,298	32,032	27,300	29,519
Tap Connection & Inspection Fees	41,216	55,750	73,900	62,950	44,510
Gain on Disposal of Capital Assets	-	-	2,505	-	-
Investment Earnings	5,121	1,562	982	950	1,007
Intergovernmental Revenue (b)	354,512	418,470	1,588,835	498,226	980,130
Other Revenues	128,324	65,587	25,003	15,852	26,430
Total Revenues	\$ 2,135,920	\$ 2,289,661	\$ 3,379,797	\$ 2,097,771	\$ 2,582,518
Expenditures:					
Purchased Services	\$ 411,182	\$ 393,691	\$ 349,878	\$ 315,629	\$ 261,455
Professional Fees	103,455	82,425	86,600	102,560	68,291
Contracted Services	908	1,012	763	1,548	1,138
Utilities	88,319	92,081	80,668	92,458	92,385
Repairs and Maintenance	478,172	357,724	341,992	303,254	320,792
Personnel Services	738,031	703,937	779,472	700,071	631,213
Administration	80,097	69,680	63,845	45,661	73,865
Capital Outlay	137,322	368,890	1,663,032	533,032	1,061,705
Debt Service	43,826	43,826	43,827	43,826	43,826
Total Expenditures	\$ 2,081,312	\$ 2,113,266	\$ 3,410,077	\$ 2,138,039	\$ 2,554,670
Net Change in Fund Balance	\$ 54,608	\$ 176,395	\$ (30,280)	\$ (40,268)	\$ 27,848
Fund Balance - Beginning of Period	\$ 916,563	\$ 740,168	\$ 770,448	\$ 810,716	\$ 782,868
Fund Balance - End of Period	\$ 971,171	\$ 916,563	\$ 740,168	\$ 770,448	\$ 810,716

(a) Unaudited. Provided by the District.

(b) Includes various items including out of district fee for customers outside of District boundaries, late penalties, NSF fees and reconnect fees and a reimbursement from TxDot for a project.

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations of the District and not obligations of the State of Texas, Galveston County, the City of Santa Fe, or any other political entity other than the District, will be secured by an annual ad valorem tax, without legal limitation as to rate or amount, levied on all taxable property within the District. The ultimate security for payment of the principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities.

Hurricane Harvey

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. However, according to the District’s Superintendent, the District’s System did not sustain significant damage and there was no interruption of water and sewer service for District customers as a result of Hurricane Harvey. According to the District’s Superintendent, flood waters resulting from Hurricane Harvey caused structural flooding of approximately 40 homes in the District.

Inclement Weather

The District is located approximately 10 miles from the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. If a hurricane (or any other natural disaster) significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, with a corresponding decrease in tax revenues or necessity to 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 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 would be adversely affected.

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of single-family residences, multifamily properties, and commercial properties. The market value of such properties is related to general economic conditions in Houston, the State of Texas and the nation and those conditions can affect the demand for and the value of such properties.

Possible Impact on District Tax Rates

Assuming no further development, the value of the land and improvements currently 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 Taxable Assessed Valuation is \$191,846,771. After issuance of the Bonds, the maximum annual debt service requirement will be \$508,975 (2039), and the average annual debt service requirement will be \$428,223 (2020-2040 inclusive). Assuming no increase or decrease from the 2018 Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.2793 and \$0.2350 per \$100 of 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. See “DEBT SERVICE REQUIREMENTS.”

Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds and the Remaining Outstanding Bonds based upon the 2018 Taxable Assessed Valuation, the District can make no representations regarding the future level of assessed valuation within the District. See “TAXING PROCEDURES” and “TAX DATA – Tax Adequacy for Debt Service.”

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. The District currently has no authorized but unissued unlimited tax bonds. Voters may authorize the issuance of additional bonds secured by ad valorem taxes.

If additional debt obligations are issued in the future by the District, such issuance may increase gross debt/property ratios and might adversely affect the investment security of the Bonds.

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 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 or flood plain mapping 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 Collection 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 “ESTIMATED OVERLAPPING DEBT AND OVERLAPPING TAXES – Overlapping Taxes for 2018”), 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 Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, 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 Order. Except for mandamus, the Bond Order 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 Order 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 securities, and otherwise compromising and modifying the rights and remedies of the Registered Owners' claims against a district.

The district may not be placed into bankruptcy involuntarily.

Continuing Compliance with Certain Covenants

Failure of the District to comply with certain covenants contained in the Bond Order 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—Tax Exemption."

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.

Environmental and Air Quality Regulations

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 (a "Utility 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—has been designated a nonattainment area under three separate federal ozone standards: the one-hour (124 parts per billion ("ppb")) and eight-hour (84 ppb) standards promulgated by the EPA in 1997 (the "1997 Ozone Standards"); the tighter, eight-hour ozone standard of 75 ppb promulgated by the EPA in 2008 (the "2008 Ozone Standard"), and the EPA's

most-recent promulgation of an even lower, 70 ppb eight-hour ozone standard in 2015 (the “2015 Ozone Standard”). While the State of Texas has been able to demonstrate steady progress and improvements in air quality in the HGB area, the HGB area remains subject to CAA nonattainment requirements.

The HGB area is currently designated as a severe ozone nonattainment area under the 1997 Ozone Standards. While the EPA has revoked the 1997 Ozone Standards, EPA historically has not formally redesignated nonattainment areas for a revoked standard. As a result, the HGB area remained subject to continuing severe nonattainment area “anti-backsliding” requirements, despite the fact that HGB area air quality has been attaining the 1997 Ozone Standards since 2014. In late 2015, EPA approved the TCEQ’s “redesignation substitute” for the HGB area under the revoked 1997 Ozone Standards, leaving the HGB area subject only to the nonattainment area requirements under the 2008 Ozone Standard (and later, the 2015 Ozone Standard).

In February 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in *South Coast Air Quality Management District v. EPA*, 882 F.3d 1138 (D.C. Cir. 2018) vacating the EPA redesignation substitute rule that provided the basis for EPA’s decision to eliminate the anti-backsliding requirements that had applied in the HGB area under the 1997 Ozone Standard. The court has not responded to EPA’s April 2018 request for rehearing of the case. To address the uncertainty created by the South Coast court’s ruling, the TCEQ has developed a formal request that the HGB area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners approved publication of a proposed HGB area redesignation request under the 1997 Ozone Standards on September 5, 2018.

The HGB area is currently designated as a “moderate” nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2018. If the EPA ultimately determines that the HGB area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification that provides for more-stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

The HGB area is currently designated as a “marginal” nonattainment area under the 2015 Ozone Standard. For purposes of the 2015 Ozone Standard, the HGB area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

In order to demonstrate progress toward attainment of the EPA’s ozone standards, the TCEQ has established a state implementation plan (“SIP”) for the HGB area 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. These SIP requirements 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. It is possible that additional controls will be necessary to allow the HGB area to reach attainment with the ozone standards 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) wastewater 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 more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility district must comply may have an impact on the municipal utility district’s ability to obtain and maintain compliance with TPDES permits.

The District is subject to the TCEQ's General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit"), which was issued by the TCEQ on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. The District is in the process of preparing its Notice of Intent and Stormwater Management Plan to apply for coverage under the MS4 Permit by the July 23, 2019 deadline. In order to maintain compliance with the MS4 Permit, the District continues to develop, implement, and maintain the required plans, as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Costs associated with these compliance activities could be substantial in the future.

In 2015, the EPA and the United States Army Corps of Engineers ("USACE") promulgated a rule known as the Clean Water Rule ("CWR") aimed at redefining "waters of the United States" over which the EPA and USACE have jurisdiction under the CWA. The CWR significantly expands the scope of the federal government's CWA jurisdiction over intrastate water bodies and wetlands. The CWR could have an adverse impact on municipal utility districts, including the District, particularly with respect to jurisdictional wetland determinations, and could increase the size and scope of activities requiring USACE permits. The CWR has been challenged in various jurisdictions, including the Southern District of Texas, and the litigation challenging the CWR is still pending.

On February 28, 2017, the President signed an executive order ordering the EPA and USACE to modify or rescind the CWR. In response, the EPA and the USACE subsequently released a proposed rule rescinding the CWR, reinstating the regulatory text that existed prior to the adoption of the CWR and proposing the development of a revised definition of "waters of the United States." In June 2018, the EPA and USACE issued a supplemental notice of proposed rulemaking to the 2017 proposed action to repeal the 2015 definition of "waters of the United States" to clarify that the agencies are proposing to permanently repeal the CWR in its entirety and reinstate language in place before the adoption of the CWR while developing a revised definition of "waters of the United States." Meanwhile, in January 2018, the EPA and the USACE finalized a rule extending the effective date of the CWR until 2020 while the agencies finalize actions to repeal and replace the CWR. This rule delaying the effective date of the CWR was challenged in court and, on August 16, 2018, the U.S. District Court for the District of South Carolina issued a nationwide injunction rendering the rule extending the effective date of the CWR void, thereby reinstating the CWR in 26 states, including Texas. However, on September 12, 2018, the U.S. District Court for the Southern District of Texas temporarily enjoined the implementation of the CWR in Texas, Louisiana and Mississippi until the case filed by the States of Texas, Louisiana and Mississippi in 2015 is finally resolved.

On December 11, 2018, the EPA and USACE released the proposed replacement definition of "waters of the United States." The proposed definition outlines six categories of waters that would be considered "waters of the United States," including traditional navigable waters, tributaries to those waters, certain ditches, certain lakes and ponds, impoundments of jurisdictional waters, and wetlands adjacent to jurisdictional waters. The proposed rule also details what are not "waters of the United States," such as features that only contain water during or in response to rainfall (e.g., ephemeral features); groundwater; many ditches, including most roadside or farm ditches; prior converted cropland; stormwater control features; and waste treatment systems. The agencies will take comment on the proposal for 60 days after publication in the Federal Register, which occurred on February 14, 2019. If finalized, the proposed rule would apply nationwide, replacing the patchwork framework for Clean Water Act jurisdiction that has resulted from litigation challenging the CWR.

Due to the pending rulemaking activity and rule challenge litigation, there is significant uncertainty regarding the ultimate scope of "waters of the United States" and the extent of EPA and USACE jurisdiction. Depending on the final outcome of such proceedings, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including permitting requirements.

Future and Proposed Legislation

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

2019 Legislative Session

The 86th Regular Legislative Session convened on January 8, 2019, and will conclude on May 27, 2019. The Texas Legislature could enact laws that materially change current laws affecting ad valorem tax matters, including rollback elections for maintenance tax increases, and other matters which could adversely affect the marketability or market value of the Bonds. The Governor of Texas has declared property tax reform as an emergency item for the legislative session, with the result that any property tax reform legislation may become effective within the first 60 days of the legislative session. In addition, the

Governor may call one or more additional special sessions that may include legislation affecting property taxes. The District can make no representation regarding any actions the Texas Legislature may take or the effect of any such actions.

Risk Factors Related to the Purchase of Municipal Bond Insurance

The District 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. See “MUNICIPAL BOND INSURANCE.”

The long-term ratings on the Bonds are dependent in part on the financial strength of the 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 “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.

LEGAL MATTERS

Legal Opinions

The District will furnish the Underwriter a transcript of certain certified proceedings held incident to the authorization and issuance of the Bonds, including a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the District. The District will also furnish the legal opinion of Bacon & Wallace, L.L.P. (“Bond Counsel”) to the effect that, based upon an examination of such transcript, (i) the Bonds are legal, valid and binding obligations of the District and are payable from the proceeds of an annual ad valorem tax, without limit as to rate or amount, levied on all taxable property in the District, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors’ rights or the exercise of judicial discretion in accordance with general principles of equity and (ii) interest on the Bonds is excludable from gross income for Federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of such opinion, assuming compliance by the District with certain covenants relating to the use and investment of the proceeds of the Bonds. Bond Counsel’s opinion also addresses the matters described below under “TAX MATTERS – Tax Exemption.” Such opinion expresses no opinion with respect to the sufficiency of the security for or the marketability of the Bonds.

Bond Counsel has reviewed the information appearing in the Official Statement under “THE BONDS,” “THE DISTRICT – General,” “MANAGEMENT OF THE DISTRICT – District Consultants,” “TAXING PROCEDURES,” “LEGAL MATTERS – Legal Opinions,” “TAX MATTERS,” and “CONTINUING DISCLOSURE OF INFORMATION” solely to determine whether such information fairly summarizes matters of law with respect to the provisions of the documents referred to therein. Such firm has not, however, independently verified any of the factual information contained in this Official Statement nor have such firm conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm’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, other than the matters discussed immediately above.

Bacon & Wallace, L.L.P. acts 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 financial condition of the District from that set forth or contemplated in the Official Statement, as amended or supplemented through the date of sale.

No-Litigation Certificate

The District will furnish the Underwriter a certificate, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature is pending or to its knowledge threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the levy, assessment and collection of ad valorem taxes to pay the interest or the principal of the Bonds; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds or the title of the present officers of the District.

TAX MATTERS

Tax Exemption

On the date of initial delivery of the Bonds, Bacon & Wallace, L.L.P., Bond Counsel will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing Law”), (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, and (ii) the Bonds will not be treated as “specified private activity bonds” the interest on which would be included as an alternative minimum tax preference term under section 57(a)(5) of the Code. The statutes, regulations, rulings, and court decisions on which the opinion is based are subject to change.

In rendering such opinion, Bond Counsel will rely upon representations and certifications of the District made in a certificate pertaining to the use, expenditure, and investment of the proceeds of the Bonds and certain other funds and will assume continuing compliance by the District with the representations and warranties in and covenants of the Bond Order subsequent to the issuance of the Bonds. Failure to comply with any of these covenants would cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of issuance of the Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law or proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, “S” corporations with “subchapter C” earnings and profits, owners of interests in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry (or who have paid or incurred certain expenses allocable to) tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Qualified Tax-Exempt Obligations – Purchase of the Bonds by Financial Institutions

The Code requires a pro rata reduction in the interest expense deduction of a financial institution to reflect such financial institution’s investment in tax-exempt obligations acquired after August 7, 1986. An exception to the foregoing provision is provided in the Code for “qualified tax-exempt obligations,” which include tax-exempt obligations, such as the Bonds, (a) designated by the issuer as “qualified tax-exempt obligations” and (b) issued by or on behalf of a political subdivision for which the aggregate amount of tax-exempt obligations (not including private activity bonds other than qualified 501(c)(3) bonds) to be issued during the calendar year is not expected to exceed \$10,000,000 for tax-exempt obligations issued in 2019.

The District has designated the Bonds as “qualified tax-exempt obligations” and has represented that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2019 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in “qualified tax-exempt obligations” (including the Bonds) during calendar year 2019.

Notwithstanding this exception, financial institutions acquiring the Bonds will be subject to a 20% disallowance of allocable interest expense.

Collateral Federal Income Tax Consequences

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

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

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

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

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

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

State, Local and Foreign Taxes

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

Tax Accounting Treatment of Discount and Premium on Certain Bonds

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

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

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

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

The initial public offering price of certain Bonds (the “Premium Bonds”) may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain or decrease the amount of any loss to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the state and local tax consequences of owning Premium Bonds.

MUNICIPAL BOND RATING

It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will assign a municipal bond rating of “AA” (stable outlook) 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. S&P has also assigned an underlying rating of “A-” to the Bonds. An explanation of the ratings may be obtained from S&P.

The rating reflects only the view of such organizations and the District makes no representation as to the appropriateness of the rating. There is no assurance that such ratings will continue for any given period of time or that it will not be revised or withdrawn entirely by S&P, if in their 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 December 21, 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.

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.

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, 2018.

Capitalization of AGM

At December 31, 2018:

- The policyholders' surplus of AGM was approximately \$2,533 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,034 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 \$1,873 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the 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 document 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: the Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (filed by AGL with the SEC on March 1, 2019).

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.”

SALE AND DISTRIBUTION OF THE BONDS

The Underwriter

The Bonds are being purchased by the Underwriter pursuant to a bond purchase agreement with the District (the “Bond Purchase Agreement”) at a price of \$1,519,292.70 (representing the par amount of the Bonds of \$1,465,000, plus a net premium on the Bonds of \$74,619.15 less an Underwriter’s discount of \$20,326.45). The Underwriter’s obligation is to purchase all of the Bonds, if any are purchased. See “PLAN OF FINANCING – Sources and Uses of Funds.”

The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

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. 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 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 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 (the “SEC”) 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.

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 Engineer, the Appraisal District and information 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 to such effect 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, orders, 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

Post Oak Municipal Advisors LLC is engaged 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. In its capacity as Financial Advisor, Post Oak Municipal 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 that have provided information used herein.

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 Sander Engineering and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Appraisal District: The information contained in this Official Statement relating to the historical breakdown of the certified taxable appraised valuations, have been provided by the Galveston Central Appraisal District and have been included herein in reliance upon the authority of such entity as experts in assessing the values of property in Galveston County, including the District.

Tax Assessor/Collector: The information contained in this Official Statement relating to the historical breakdown of the Assessed Valuations, principal taxpayers, and certain other historical data concerning tax rates and tax collections has been provided by Santa Fe Independent School District and is included herein in reliance upon its authority as an expert in assessing and collecting taxes.

Auditor: The District’s financial statements for the year ended December 31, 2017, were audited by Knox Cox & Company, LLP. See “APPENDIX A” for a copy of the District’s December 31, 2017 financial statement.

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 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 (but not more than 90 days after the date the District delivers the Bonds) until all of the Bonds have been sold to ultimate customers.

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 certification, the official executing this Official Statement may state that he has relied in part on his examination of records of the District relating to matters within his own area of responsibility, and his discussions with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of the District.

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) of the United States Securities and Exchange Commission (the “SEC”) regarding the District’s continuing disclosure obligations because the District does not have more than \$10,000,000 in aggregate amount of bonds outstanding and no person is committed by contract or other arrangement with respect to payment of the Bonds. As required under the exemption, in the Bond Order, the District has made 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 subject to amendment to or repeal of same as set forth below. Under the agreement, the District will be obligated to provide certain financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (“MSRB”). The MSRB has established the Electronic Municipal Market Access (“EMMA”) system.

Annual Reports

The District will provide certain financial information and operating data which is customarily prepared by the District and publicly available annually to the MSRB. The financial information and operating data which will be provided includes all quantitative financial information and operating data of the general type included in APPENDIX A (Financial Statements of the District and certain supplemental schedules). The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2019. The District will provide the updated information to the MSRB.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements if the District commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six-month period and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Order, or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District’s current fiscal year end is December 31. Accordingly, it must provide updated information by June 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.

Specified Event Notices

The District will provide timely notices of certain 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-exempt status of the Bonds, or other events affecting the tax-exempt 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 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 an definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person within the meaning of the Rule, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person within the meaning of the Rule, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the District or other obligated person within the meaning of the Rule, any of which reflect financial difficulties. 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 Order makes 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, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from 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 internet portal at 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 registered owners 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 Order 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 Underwriters 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

During the last five years, the District has complied with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12(b)(5)(i) with the exception of a failure to timely file a change in the rating of the municipal bond insurance company insuring the District’s Series 2009 and Series 2010 Bonds. The District has filed a notice of late filing in connection with such rating upgrades and has established procedures to monitor and report rating changes in the future.

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.

This Official Statement was approved by the Board of Directors of Galveston County Water Control & Improvement District No. 8, as of the date shown on the cover page.

/s/ C.T. (Tommy) Anderson
President, Board of Directors

ATTEST:

/s/ David Keith Tyner
Secretary, Board of Directors

APPENDIX A

**AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017**



Certified Public Accountants

77 Sugar Creek Center Blvd., Suite 215 | Sugar Land, Texas 77478
main: 346-772-2860 | fax: 346-772-2853

Independent Auditors' Report

Board of Directors
Galveston County Water Control and Improvement District No. 8
Galveston County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of the Galveston County Water Control and Improvement District No. 8 (the "District") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We 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 December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

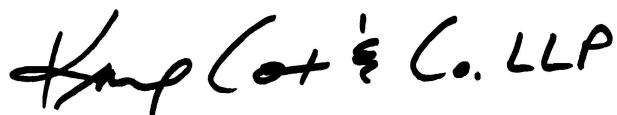
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 38, respectively, be presented to supplement the basic financial statements. Such information, although not a 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 Texas Supplementary Information (TSI) listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Handwritten signature in black ink that reads "Karp Cot & Co. LLP". The signature is written in a cursive, flowing style.

Sugar Land, Texas
April 12, 2018

Management's Discussion and Analysis

As management of Galveston County Water Control and Improvement District No. 8 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2017.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$11,250,392 (net position).
- As of December 31, 2017, the District's governmental funds reported an ending fund balance of \$2,464,937.
- The District's cash and investments balance at December 31, 2017 was \$2,762,046 representing an increase of \$1,295,683 from December 31, 2016.
- The District had revenues of \$2,623,086 and a change in net position of (\$147,282) for the year ended December 31, 2017.
- At the end of the fiscal year, unrestricted and unassigned fund balance for the General Fund was \$916,563 or 43 percent of total General Fund expenditures.
- The District's total debt increased by \$1,527,158 during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets, liabilities and deferred inflows with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation).

The government-wide financial statements present functions of the District that are provided from funding sources (governmental activities). The government-wide financial statements can be found on pages 10-13 of this report.

FUND FINANCIAL STATEMENTS

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the District consist solely of governmental funds (the General Fund, Debt Service Fund and Capital Projects Fund).

Governmental Funds - Governmental funds are used to account for essentially the same function reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide an adjustments column to facilitate this comparison between the governmental funds and *governmental activities*. The basic governmental fund financial statements can be found on pages 10-13 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15 through 36 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's General Fund budget. Required supplementary information can be found on pages 38 through 39 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities and deferred inflows by \$11,250,392 as of December 31, 2017.

The largest portion of the District's net position reflects its net investment in capital assets (\$10,084,104).

The second largest portion of the District's net position represents unrestricted financial resources available for future operations (\$965,618).

Additionally, a portion of the District's net position represents restricted assets for debt service (\$200,670).

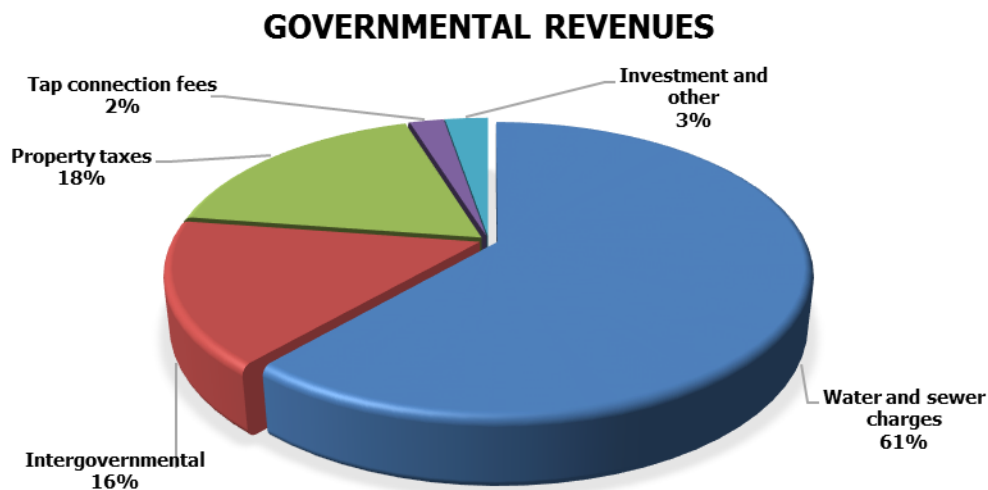
SUMMARY OF STATEMENT OF NET POSITION

	Governmental Activities	
	2017	2016
Current and other assets	\$ 3,280,730	\$ 1,963,366
Capital assets, net	15,366,601	15,427,451
Total Assets	18,647,331	17,390,817
Long-term liabilities	6,571,650	5,044,492
Other liabilities	323,466	513,117
Total Liabilities	6,895,116	5,557,609
Unavailable revenues - property taxes	501,823	435,534
Total Deferred Inflows of Resources	501,823	435,534
Net Position:		
Net investment in capital assets	10,084,104	10,343,686
Restricted	200,670	209,613
Unrestricted	965,618	844,375
Total Net Position	\$ 11,250,392	\$ 11,397,674

Net position of the District, all of which relates to governmental activities, decreased by \$147,282. Key elements of the decrease are as follows:

CHANGES IN NET POSITION

	Governmental Activities	
	2017	2016
Revenues		
Water and sewer charges	\$ 1,611,146	\$ 1,541,629
Property taxes, penalties and interest	467,621	529,785
Tap connection fees	55,750	73,900
Intergovernmental revenue	418,470	1,588,835
Investment income and other	70,099	28,830
Total Revenues	2,623,086	3,762,979
Expenses		
Purchased services	393,691	349,878
Professional fees and contracted services	83,437	86,600
Repairs and maintenance	304,774	341,992
Intergovernmental	222,098	
Personnel, utilities and administration	914,116	924,748
Interest and fiscal charges on long-term debt	245,063	245,788
Issuance costs	158,412	
Depreciation	448,777	420,145
Total Expenses	2,770,368	2,369,151
Change in Net Position	(147,282)	1,393,828
Net Position, Beginning	11,397,674	10,003,846
Net Position, Ending	\$ 11,250,392	\$ 11,397,674



Governmental Funds - The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, fund balances may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the fiscal year.

As of December 31, 2017, the District's governmental funds, which consist of a general fund, debt service fund and capital projects fund, reported an ending fund balance of \$2,464,937, which is an increase of \$1,452,153 from last year's total of \$1,012,784. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total General Fund expenditures. Unassigned fund balance represents 43 percent of total General Fund expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The District's net investment in capital assets as of December 31, 2017 amounts to \$15,366,601 (net of accumulated depreciation). This net investment in capital assets includes land, buildings, vehicles and equipment, and water and wastewater infrastructure.

CAPITAL ASSETS SCHEDULE

	Governmental Activities	
	2017	2016
Capital assets not being depreciated:		
Land	\$ 388,591	\$ 388,591
Construction in progress		1,137,395
	<u>388,591</u>	<u>1,525,986</u>
Capital assets being depreciated:		
Buildings	375,000	375,000
Vehicles and equipment	473,174	457,818
Infrastructure	19,658,286	18,161,189
	<u>20,506,460</u>	<u>18,994,007</u>
Less: accumulated depreciation	<u>(5,528,450)</u>	<u>(5,092,542)</u>
	<u>14,978,010</u>	<u>13,901,465</u>
Total Capital Assets, Net	<u>\$ 15,366,601</u>	<u>\$ 15,427,451</u>

During the current fiscal year, individually significant capital assets additions consisted of contributions by Santa Fe Economic Development Corp. for various water and sewer projects.

Additional information on the District's capital assets can be found in Note 6 in the notes to financial statements.

Long-term Debt - As of December 31, 2017, the District has total debt outstanding of \$6,571,650. Interest expense and fiscal charges totaled \$245,063 for the 2017 fiscal year on this debt. The outstanding debt, which consists of bonds, notes and a capital lease, has maturities ranging from 2018 to 2040.

LONG-TERM DEBT SCHEDULE

	Governmental Activities	
	2017	2016
Tax bonds	\$ 6,251,000	\$ 4,920,000
Notes payable	236,523	
Capital lease	84,127	124,492
Total Long-term Debt	\$ 6,571,650	\$ 5,044,492

Additional information on the District’s long-term debt can be found in Note 7 and Note 8 in the notes to the financial statements.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of Galveston County Water Control and Improvement District No. 8’s finances for all those with an interest in the District’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Galveston County Water Control and Improvement District No. 8: James Newman, Superintendent, P.O. Box 337, Santa Fe, Texas 77510.

FINANCIAL STATEMENTS

Galveston County Water Control and Improvement District No. 8

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

December 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 672,453	\$ 218,015	\$ 1,295,153	\$ 2,185,621
Investments	346,800	229,625		576,425
Receivables:				
Property taxes, net	81,242	160,599		241,841
Customer service accounts	153,418			153,418
Other	65,326			65,326
Penalties and interest				
Prepayments	30,948			30,948
Capital assets, net of accumulated depreciation:				
Land				
Buildings				
Vehicles and equipment				
Infrastructure				
Total Assets	<u>\$ 1,350,187</u>	<u>\$ 608,239</u>	<u>\$ 1,295,153</u>	<u>\$ 3,253,579</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 78,647	\$	\$ 6,000	\$ 84,647
Customer deposits	165,107			165,107
Builder deposits	4,500			4,500
Accrued interest payable				
Long-term liabilities:				
Due within one year				
Due after one year				
Total Liabilities	<u>248,254</u>	<u></u>	<u>6,000</u>	<u>254,254</u>
Deferred Inflow of Resources				
Unavailable revenues - property taxes	<u>185,370</u>	<u>349,018</u>	<u></u>	<u>534,388</u>
Fund Balances/Net Position				
Fund Balances:				
Restricted for debt service		259,221		259,221
Restricted for capital projects			1,289,153	1,289,153
Unrestricted and unassigned	916,563			916,563
Total Fund Balances	<u>916,563</u>	<u>259,221</u>	<u>1,289,153</u>	<u>2,464,937</u>
Total Liabilities and Fund Balances	<u>\$ 1,350,187</u>	<u>\$ 608,239</u>	<u>\$ 1,295,153</u>	<u>\$ 3,253,579</u>
Net Position:				
Net investment in capital assets				
Restricted for debt service				
Unrestricted				
Total Net Position				

See Notes to Financial Statements.

Exhibit B(1)

<u>Adjustments (Note 2)</u>	<u>Statement of Net Position</u>
\$	\$ 2,185,621
	576,425
	241,841
	153,418
	65,326
27,151	27,151
	30,948
388,591	388,591
250,603	250,603
180,688	180,688
14,546,719	14,546,719
<u>15,393,752</u>	<u>18,647,331</u>
\$	84,647
	165,107
	4,500
69,212	69,212
222,569	222,569
6,349,081	6,349,081
<u>6,640,862</u>	<u>6,895,116</u>
<u>(32,565)</u>	<u>501,823</u>
(259,221)	
(1,289,153)	
(916,563)	
<u>(2,464,937)</u>	
10,084,104	10,084,104
200,670	200,670
965,618	965,618
<u>\$ 11,250,392</u>	<u>\$ 11,250,392</u>

Galveston County Water Control and Improvement District No. 8

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

For the Year Ended December 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Revenues				
Water service charges	\$ 1,034,609	\$	\$	\$ 1,034,609
Sewer service charges	576,537			576,537
Property taxes	106,848	327,883		434,731
Penalties and interest	30,298	7,810		38,108
Tap connection and inspection fees	55,750			55,750
Intergovernmental revenue	418,470			418,470
Investment earnings	1,562	2,787	163	4,512
Other	65,587			65,587
Total Revenues	<u>2,289,661</u>	<u>338,480</u>	<u>163</u>	<u>2,628,304</u>
Expenditures/Expenses				
Current:				
Purchased services	393,691			393,691
Professional fees	82,425			82,425
Contracted services	1,012			1,012
Utilities	92,081			92,081
Repairs and maintenance	357,724			357,724
Personnel services	703,937			703,937
Administration	69,680			69,680
Intergovernmental				
Capital Outlay	368,890		158,412	527,302
Debt Service:				
Principal retirement	40,365	95,000		135,365
Interest and fiscal charges	3,461	235,473		238,934
Issuance costs				
Depreciation				
Total Expenditures/Expenses	<u>2,113,266</u>	<u>330,473</u>	<u>158,412</u>	<u>2,602,151</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	176,395	8,007	(158,249)	26,153
Other Financing Sources				
Bond proceeds			1,426,000	1,426,000
Total Other Financing Sources			<u>1,426,000</u>	<u>1,426,000</u>
Net Change in Fund Balance	176,395	8,007	1,267,751	1,452,153
Change in Net Position				
Fund Balances/Net Position - Beginning	740,168	251,214	21,402	1,012,784
Fund Balances/Net Position - Ending	<u>\$ 916,563</u>	<u>\$ 259,221</u>	<u>\$ 1,289,153</u>	<u>\$ 2,464,937</u>

See Notes to Financial Statements.

Exhibit B(2)

<u>Adjustments (Note 2)</u>	<u>Statement of Activities</u>
\$	\$ 1,034,609
	576,537
(512)	434,219
(4,706)	33,402
	55,750
	418,470
	4,512
	65,587
<u>(5,218)</u>	<u>2,623,086</u>
	393,691
	82,425
	1,012
	92,081
	357,724
	703,937
(4,532)	65,148
222,098	222,098
(527,302)	
(135,365)	
6,129	245,063
158,412	158,412
448,777	448,777
<u>168,217</u>	<u>2,770,368</u>
(173,435)	
(1,426,000)	
<u>(1,426,000)</u>	
(1,452,153)	
(147,282)	(147,282)
10,384,890	11,397,674
<u>\$ 8,785,455</u>	<u>\$ 11,250,392</u>

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Galveston County Water Control and Improvement District No. 8

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Galveston County Water Control and Improvement District No. 8 (the "District") conform with accounting principles generally accepted in the United States of America. The following is a summary of the most significant policies:

A. Reporting Entity

Galveston County Water Control and Improvement District No. 8 (the "District") was created by the filing on September 20, 1945 of a petition to the State of Texas requesting the organization of a Water Control and Improvement District within the terms and provisions of Section 56, Article 16, of the Constitution of Texas. The State's right to create districts was authorized under the provisions of Chapter 3A, Title 128, Revised Civil Statutes of 1925 together with all amendments and additions by the provisions of Chapter 280, Acts of the 41st Legislature, 1929. The Board of Directors held its first meeting on January 13, 1959 and the first bonds were sold on August 1, 1959. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

The District's primary activities include construction, maintenance, and operation of water and sewer system facilities and debt service on bonds issued to construct the facilities.

The District is a political subdivision of the State of Texas governed by an elected five-member board and is considered a primary government. As required by generally accepted accounting principles, these financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the District's financial reporting entity. Based on these considerations, no other entities, organizations, or functions have been included in the District's financial reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the District's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Although not considered significant in the District's reporting entity evaluation, other prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Galveston County Water Control and Improvement District No. 8

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

Financial Statement Presentation

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This statement, known as the “Reporting Model” statement, affects the way the District prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private-sector financial information.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions.

Some of the significant changes of GASB Statement No. 34 include the following:

Management’s Discussion and Analysis - GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government’s financial activities in the form of “management’s discussion and analysis” (MD&A). This analysis is similar to the analysis that private sector companies provide in their annual reports.

Government-wide Financial Statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government’s activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure and general obligation debt). Accrual accounting reports all of the revenues and costs of providing services each year, not just those received or paid in the current or soon thereafter, as is the case with the modified accrual basis of accounting. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Position and report related depreciation expense, the cost of “using up” capital assets, in the Statement of Activities. The net position of a government is broken down into three categories: 1) net investment in capital assets 2) restricted; and 3) unrestricted.

Fund Financial Statements - These statements focus on the District’s major funds and are prepared using the modified accrual basis of accounting.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all the non-fiduciary activities of the primary government and its component units, as applicable. The effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary

Galveston County Water Control and Improvement **District No. 8**

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

government is financially accountable. The District had no business-type activities or component units as of and for the year ended December 31, 2017.

The governmental funds financial statements consist of the balance sheet and statement of revenues, expenditures and changes in fund balance. These financial statements have been adjusted to arrive at the government-wide financial statement balances (statement of net position and statement of activities). Major individual governmental funds are reported as separate columns in the fund financial statements.

B. Measurement Focus and Basis of Accounting

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

Governmental funds financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within 60 days of the end of the current fiscal period. Revenues accrued include interest earned on investments and income from District operations. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service requirements, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance amounts to be properly reported within one of the following fund balance categories:

Nonspendable:

To indicate fund balance associated with inventories, prepaids, long-term loans and notes receivable and property held for resale (unless the proceeds are restricted, committed or assigned).

Restricted:

To indicate fund balance that can be spent only for the specific purposes stipulated by constitution, external resource providers or through enabling legislation.

**Galveston County Water Control and Improvement
District No. 8**

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

Committed:

To indicate fund balance that can be used only for the specific purposes determined by a formal action of the Board of Directors (the District's highest level of decision-making authority).

Assigned:

To indicate fund balance to be used for specific purposes but do meet the criteria to be classified as restricted or committed.

Unassigned:

To indicate the residual classification of fund balance in the General Fund and includes all spendable amounts not contained in the other classifications.

In circumstances where an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned and unassigned.

GASB 54 requires disclosure of any formally adopted minimum fund balance policies. The District does not currently have any such policies.

The accounting system is organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which comprise its assets, liabilities, deferred inflows, fund equity or deficit, revenues and expenditures.

The District reports the following governmental funds:

General Fund

The General Fund is used to account for the operations of the District's water and sewer system and all other financial transactions not properly includable in other funds. The principal sources of revenue are related to water and sewer service operations. Expenditures include all costs associated with the daily operations of the District.

Debt Service Fund

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt. The primary source of revenue for debt service is property taxes pursuant to requirements of the District's bond resolutions. Expenditures include costs incurred in assessing and collecting these taxes.

Capital Projects Fund

The Capital Projects Fund is used to account for the expenditure of bond proceeds for the construction of the District's water and sewer facilities.

**Galveston County Water Control and Improvement
District No. 8**

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

C. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of unavailable property tax revenues.

D. Investments

The District classifies investments that have a remaining maturity of one year or less at the date of purchase as "money market investments" in accordance with Governmental Accounting Standards Board Statement No. 31, "Accounting and Reporting for Certain Investments and External Investment Pools" (Statement No. 31). Statement No. 31 defines "money market investments" as short-term, highly liquid debt instruments including commercial paper, banker's acceptances and U.S. Treasury and agency obligations. The District values its "money market investments" at cost, which is considered to approximate market value. The District's certificates of deposit, if any, are recorded at cost in accordance with Statement No. 31.

E. Short-Term Internal Receivables/Payables

During the course of operations, transactions occur between individual funds for specified purposes. These receivables and payables are classified as internal receivables and payables on the combined balance sheet. These amounts are eliminated for government-wide presentation.

F. Prepayments

Certain payments made by the District reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

G. Receivables

All receivables are reported at the gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At December 31, 2017, allowances of \$5,273 and \$3,329 are provided for possible uncollectible property taxes in the General Fund and Debt Service Fund, respectively.

H. Capital Assets

Capital assets, which include property, improvements and infrastructure assets, are reported in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The District has not capitalized interest incurred during the construction of its capital assets.

**Galveston County Water Control and Improvement
District No. 8**

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend lives are not capitalized. Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Land	N/A
Infrastructure	20 to 45 years
Other	10 to 20 years

I. Compensated Employee Absences

Compensated employee absences, which include unpaid vacation and sick leave, are accumulated during employment. At December 31, 2017, amounts accrued for compensated employee absences are deemed immaterial and are not included in the financial statements.

J. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

K. Reclassifications

Certain reclassifications to prior year balances have been made to conform to current year presentation. Such reclassifications have had no effect on the change in net position or change in fund balances.

L. Date of Management's Review

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through April 12, 2018, the date that the financial statements were available to be issued.

M. Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Galveston County Water Control and Improvement
District No. 8**

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes an adjustments column to arrive at the government-wide statement of net position balances. Amounts reported in the statement of net position are different because:

Total fund balances - governmental funds	\$ 2,464,937
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	15,366,601
Other long-term assets are not available to pay for current period expenditures and are deferred inflows of resources in the funds.	32,565
Penalty and interest on delinquent taxes is not receivable in the current period and is not reportable in the funds.	27,151
Accrued interest on long-term liabilities is not due and payable with current financial resources and is not reported in the funds.	(69,212)
Long-term liabilities, including bonds, notes and capital leases payable, are not due and payable in the current period, and therefore are not reported in the funds.	<u>(6,571,650)</u>
Net Position of Governmental Activities	<u><u>\$ 11,250,392</u></u>

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NOTES TO FINANCIAL STATEMENTS

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes an adjustments column to arrive at changes in net position as reported in the government-wide statement of activities. Amounts reported in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 1,452,153
Governmental funds report capital outlays as expenditures.	
However, in the statement of activities, the cost of those assets is allocated over their estimated lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(75,275)
The issuance of long-term debt provides current financial resources to governmental funds, but does not have an effect on net position.	(1,426,000)
Repayment of bond and note principal is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	135,365
Some expenses in the statement of activities do not require the use of current financial resources and therefore are reported as expenditures in governmental funds. This adjustment reflects the net change in interest payable (-\$6,209) and the EDC note payable (-\$222,098).	(228,307)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This represents the net change in property taxes receivable and accrued penalty and interest on the accrual basis of accounting.	<u>(5,218)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (147,282)</u></u>

NOTE 3 - CASH AND INVESTMENTS

Cash consists of interest bearing checking accounts and investments consist of certificates of deposit and deposits in TexPool. Cash and investments in the Debt Service Fund of \$447,640 are restricted for use in paying interest and principal on long-term debt, paying agent fees and costs of assessing and collecting property taxes pursuant to the District's bond resolutions.

**Galveston County Water Control and Improvement
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NOTES TO FINANCIAL STATEMENTS

The carrying amounts for cash and investment balances, which approximate fair values, by fund at December 31, 2017, are as follows:

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Cash and Cash Equivalents				
Checking and savings accounts	\$ 672,453	\$ 218,015	\$ 1,295,153	\$ 2,185,621
	<u>\$ 672,453</u>	<u>\$ 218,015</u>	<u>\$ 1,295,153</u>	<u>\$ 2,185,621</u>
Investments				
Certificates of deposit	\$ 344,114	\$ 228,667	\$ -	\$ 572,781
TexPool	2,686	958	-	3,644
	<u>\$ 346,800</u>	<u>\$ 229,625</u>	<u>\$ -</u>	<u>\$ 576,425</u>

Custodial Credit Risk - Deposits

For deposits, this is the risk that in the event of bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. Collateral is required for all bank deposits at 100% of deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts. Collateral pledged to cover the District's deposits is required to be held in the District's name by the trust department of a bank other than the pledging bank (the District's agent). Collateral securities must bear a Baa-1 or better rating to qualify for use in securing uninsured depository balances. Deposits at year-end are representative of the types of deposits maintained by the District during the year.

The District's deposits in banks at year-end were entirely covered by federal depository insurance or by acceptable collateral held by the District's agent in the District's name.

Restricted Cash

Cash and investments in the Debt Service Fund are restricted for use in paying interest and principal on long-term debt, paying agent fees and costs of assessing and collecting property taxes pursuant to the District's bond resolution.

**Galveston County Water Control and Improvement
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Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

Investments

At year-end, the District's investment balances were as follows:

	Fair Value	Weighted Average Maturity (Days)
Certificates of deposit	\$ 572,781	88
TexPool	3,644	33
Total Investments	\$ 576,425	

Investment Policies

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. The investments of the District are in compliance with its investment policy.

Applicable state laws and regulations allow the District to invest its funds in direct or indirect obligations of the United States, the State, or any county, city, school district, or other political subdivision of the State. Funds may also be placed in certificates of deposit of state or national banks or savings and loan associations (depository institutions) domiciled within the State. Related state statutes and provisions included in the District's bond resolutions require that all funds invested in depository institutions be guaranteed by federal depository insurance and/or be secured in the manner provided by law for the security of public funds. Balances in checking accounts in depository institutions were entirely guaranteed by federal depository insurance or security as provided by statutes and bond provisions at December 31, 2017.

Investment Pools

The District participates in TexPool, The Texas Local Government Investment Pool. The State Comptroller of Public Accounts (the "Comptroller") administers TexPool, as a public funds investment pool through the Texas Treasury Safekeeping Trust Company (The "Trust Company"). The Comptroller is the sole officer, director, and shareholder of the Trust Company and thus maintains oversight responsibility of TexPool, which includes (1) the ability to significantly influence operations, (2) designation of management and (3) accountability for fiscal matters. The Comptroller has established an advisory board composed of both participants in TexPool and other qualified persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 79, TexPool uses amortized cost (which excludes unrealized gains and losses) to compute share price. An external investment pool qualifies for amortized cost reporting if it transacts with its participants at a stable net asset value per share and meets various portfolio maturity, quality, diversification liquidity and pricing requirements.

**Galveston County Water Control and Improvement
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NOTES TO FINANCIAL STATEMENTS

Interest Rate Risk

In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to the maximum limits established by law for public investments.

Credit Risk - Investments

In accordance with its investment policy, the District minimized credit risk losses due to default of a security issuer or backer, by limiting investments to the safest types of securities. As of December 31, 2017, TexPool is rated AAAM by Standard and Poor's.

NOTE 4 - PROPERTY TAXES

The voters of the District have authorized the District's Board of Directors to levy maintenance taxes annually for use in financing general operations limited to \$0.28 per \$100 of assessed value. The District's bond resolutions require that ad valorem taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied for debt service requirements are without limitation as to rate or amount.

The Galveston Central Appraisal District determines all property values. A tax lien attaches to all properties within the District on February 1st of each year. Taxes are generally levied on October 1 and are due upon receipt of the tax bill by the property owner. Penalties and interest are charged if taxes are not paid by the succeeding January 31st.

Property taxes are prorated between operations and debt service based on the respective rates adopted for the year of the levy. For the 2018 fiscal year (2017 tax year), the District levied a combined rate of \$0.27 per \$100 of assessed valuation of which \$0.094 was allocated to maintenance and operations and \$0.176 was allocated to debt service. The resulting tax levy was \$501,823 on the adjusted taxable valuation of \$185,860,477 for the 2017 tax year. In accordance with governmental accounting standards, the levy for the 2017 tax year of \$501,823 was recorded as a deferred inflow of resources in both the Statement of Net Position and Governmental Funds Balance Sheet, since revenues from this levy are intended to finance the 2018 fiscal year.

**Galveston County Water Control and Improvement
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NOTES TO FINANCIAL STATEMENTS

Property taxes receivable at December 31, 2017, consisted of the following:

	General Fund	Debt Service Fund	Total
2017 Levy	\$ 75,854	\$ 142,024	\$ 217,878
2016 Levy	1,336	4,089	5,425
2015 Levy	820	2,619	3,439
2014 Levy	430	1,455	1,885
2013 and prior	8,075	13,741	21,816
Total property taxes receivable	86,515	163,928	250,443
Less allowance for doubtful accounts	(5,273)	(3,329)	(8,602)
Total Property Taxes Receivable, Net	\$ 81,242	\$ 160,599	\$ 241,841

NOTE 5 - RECEIVABLES

Receivables, net of allowance for uncollectible accounts, as of year-end for the government's individual major funds are as follows:

	General	Debt Service	Total
Receivables:			
Taxes, net	\$ 81,242	\$ 160,599	\$ 241,841
Accounts	153,418		153,418
Other	65,326		65,326
Total Receivables	\$ 299,986	\$ 160,599	\$ 460,585

The governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred inflows reported by the District were as follows:

	Unavailable
Property taxes receivable - General Fund	\$ 185,370
Property taxes receivable - Debt Service Fund	349,018
Total Deferred Inflows of Resources	\$ 534,388

Galveston County Water Control and Improvement District No. 8

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NOTES TO FINANCIAL STATEMENTS

NOTE 6 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2017, follows:

	<u>Balance Jan. 1, 2017</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance Dec. 31, 2017</u>
Governmental Activities:				
Non-depreciable Assets:				
Land and improvements	\$ 388,591	\$	\$ -	\$ 388,591
Construction in progress	1,137,395	301,402	(1,438,797)	-
Total Non-Depreciable Assets	<u>1,525,986</u>	<u>301,402</u>	<u>(1,438,797)</u>	<u>388,591</u>
Depreciable Assets:				
Buildings	375,000			375,000
Vehicles and equipment	427,747	58,296	(12,869)	473,174
Infrastructure	18,191,260	1,467,026		19,658,286
Total Depreciable Assets	<u>18,994,007</u>	<u>1,525,322</u>	<u>(12,869)</u>	<u>20,506,460</u>
Less Accumulated Depreciation	<u>(5,092,542)</u>	<u>(448,777)</u>	<u>12,869</u>	<u>(5,528,450)</u>
Totals	<u>\$ 15,427,451</u>	<u>\$ 1,377,947</u>	<u>\$ (1,438,797)</u>	<u>\$ 15,366,601</u>

Depreciation expense for the year ended December 31, 2017, totaled \$448,777.

NOTE 7 - LEASES

Capital Lease

The District has entered into a lease agreement as lessee for financing the acquisition of approximately 1,500 water meters. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The asset acquired through a capital lease is as follows:

	<u>Governmental Activities</u>
Asset:	
Infrastructure	\$ 275,325
Less: Accumulated depreciation	(72,272)
Total	<u>\$ 203,053</u>

Galveston County Water Control and Improvement District No. 8

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NOTES TO FINANCIAL STATEMENTS

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2017, are as follows:

Year Ending December 31	Governmental Activities
2018	\$ 43,826
2019	43,826
Total minimum lease payments	87,652
Less: amount representing interest	(3,525)
Present value of minimum lease payments	\$ 84,127

NOTE 8 - LONG-TERM DEBT

Long-term debt includes bonds payable. Payments of principal and interest on the bonds are to be provided from tax levies on properties within the District. Investment income realized by the Debt Service Fund from investment of funds will be used to pay outstanding bond principal and interest.

The following is a summary of changes in bonds payable for the year ended December 31, 2017:

Bonds payable, January 1, 2017	\$ 4,920,000
Bonds issued	1,426,000
Bonds retired	(95,000)
Bonds Payable, December 31, 2017	\$ 6,251,000

Bonds payable at December 31, 2017, are comprised of the following individual issues:

Series	Amounts Outstanding	Interest Rate	Date Serially Begin/End	Maturity Interest Dates	Callable Date
2009 Bonds	\$1,525,000	4.75%- 6.375%	April 1 2011/2039	April 1/ October 1	April 1, 2019 *
2010 Bonds	\$3,300,000	4.00%- 5.25%	April 1 2011/2039	April 1/ October 1	April 1, 2020 *
2017 Bonds	\$1,426,000	2.00%- 3.75%	April 1 2020/2040	April 1/ October 1	April 1, 2024 *

* Or any interest payment date thereafter in accordance with redemption provisions of the bond resolution.

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NOTES TO FINANCIAL STATEMENTS

As of December 31, 2017, the debt service requirements on the bonds outstanding are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 100,000	\$ 265,237	\$ 365,237
2019	105,000	266,758	371,758
2020	156,000	260,208	416,208
2021	160,000	252,836	412,836
2022	175,000	245,001	420,001
2023-2027	1,055,000	1,089,944	2,144,944
2028-2032	1,440,000	831,270	2,271,270
2033-2037	2,450,000	466,304	2,916,304
2038-2040	610,000	53,399	663,399
	<u>\$ 6,251,000</u>	<u>\$ 3,730,957</u>	<u>\$ 9,981,957</u>

At December 31, 2017, the District had no authorized but unissued bonds. This includes amounts authorized for refunding purposes.

The Debt Service Fund has \$259,221 available to service the above bonds.

The District is in compliance with all significant bond requirements and restrictions contained in the bond resolutions.

Notes Payable

In May 2017, the District financed the purchase of equipment with a three year note payable. The note payable carries an interest rate of 4.5% and is payable in three principal and interest payments of \$7,713, due annually. As of December 31, 2017, the note has an outstanding balance of \$14,425.

In July 2017, the District entered into a repayment agreement with the Santa Fe Economic Development Corporation (SFEDC) related to the Interlocal Agreement between the District and the SFEDC for the construction, surveying, engineering and related costs of relocating and adding water and sewer lines to FM 646 N, Texas State highway 6 and FM 1764. Pursuant to the repayment agreement, the District agrees to pay SFEDC \$222,098 in three equal payments of \$74,032.80 due on or before September 30 of 2018, 2019 and 2020. The District's obligation is recorded as a note payable. As of December 31, 2017, the note has an outstanding balance of \$222,098.

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NOTES TO FINANCIAL STATEMENTS

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017, was as follows:

	Balance Jan. 1, 2017	Additions	Reductions	Balance Dec. 31, 2017	Amounts Due Within One Year
Governmental Activities:					
Bonds payable:					
Tax bonds	\$ 4,920,000	\$ 1,426,000	\$ (95,000)	\$ 6,251,000	\$ 100,000
Notes payable		244,236	(7,713)	236,523	81,083
Capital leases	124,492		(40,365)	84,127	41,486
	<u>\$ 5,044,492</u>	<u>\$ 1,670,236</u>	<u>\$ (143,078)</u>	<u>\$ 6,571,650</u>	<u>\$ 222,569</u>

NOTE 9 - DEFINED BENEFIT PENSION PLAN

The District participates in the City of Santa Fe's (City) defined benefit pension plan. The District remits employee and employer contributions to the City for inclusion in their plan. All pension plan assets, liabilities, deferred inflows, deferred outflows and activities are recorded in the City's financial statements.

Plan Description

The City of Santa Fe, Texas, participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit plan administered by the Texas Municipal Retirement System ("TMRS"). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code ("the TMRS Act") as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report ("CAFR") that can be obtained at www.tmrs.com.

Benefits Provided

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

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

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NOTES TO FINANCIAL STATEMENTS

Plan provisions adopted by the City are as follows:

Employee deposit rate	7%
Matching ratio	1.5 to 1
Years required for vesting	10
Retirement Eligibility (Age/Service)	60/10, 0/20
Updated Service Credit	100% Repeating Transfers
Annuity Increases (to retirees)	70% of CPI Repeating
Supplemental death benefits	No

Contributions

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

Employees for the City and District, were required to contribute 7.0% of their annual gross earnings during the fiscal year. The contribution rates for the City and District, were 12.31% and 12.07% in calendar years 2016 and 2017, respectively. The District's contributions to TMRS for the year ended December 31, 2017, were \$55,450, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability ("NPL") was measured as of December 31, 2016, and the Total Pension Liability ("TPL") used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-district RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account

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NOTES TO FINANCIAL STATEMENTS

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

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal ("EAN") actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate Of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

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NOTES TO FINANCIAL STATEMENTS

Discount Rate

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

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
Balance at 12/31/15	\$ 11,370,341	\$ 8,544,394	\$ 2,825,947
Changes for the year:			
Service cost	434,657		434,657
Interest on total pension liability	771,006		771,006
Difference between expected and actual experience	(44,684)		(44,684)
Benefit payments	(330,730)		(330,730)
Contributions - employer		385,019	(385,019)
Contributions - employee		218,938	(218,938)
Net investment income		577,467	(577,467)
Benefit payments		(330,730)	330,730
Administrative expenses		(6,522)	6,522
Other		(351)	351
Net Changes	830,249	843,821	(13,572)
Balance at 12/31/16	\$ 12,200,590	\$ 9,388,215	\$ 2,812,375

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

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NOTES TO FINANCIAL STATEMENTS

	1% Decrease in Discount Rate 5.75%	Current Discount Rate 6.75%	1% Increase in Discount Rate 7.75%
City's net pension liability (asset)	\$ 4,691,288	\$ 2,812,375	\$ 1,291,537

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2017, the District recognized pension expense of \$55,455.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$	\$ 44,684
Net difference between projected and actual investment earnings		720
Totals	\$	\$ 45,404

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended Dec 31:		
2017	\$	25,287
2018		40,965
2019		85,971
2020		(144)
Thereafter		
Total	\$	152,079

NOTE 10 - WATER SUPPLY CONTRACT

In 1991, as amended in 1998, the District has contracted with the Gulf Coast Water Authority (GCWA) to provide its residents with a supply of potable water through GCWA's Mainland System.

During the year ended December 31, 2017, the District incurred \$393,691 for the cost of water purchased from the GCWA under this contract.

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NOTES TO FINANCIAL STATEMENTS

The relationship between the GCWA and its Participating Districts is purely contractual. The GCWA is a separate functioning governmental entity whose management and Board of Directors are not subject to the control of the participating districts. The District, together with other area municipal utility districts with similar contracts with the GCWA (collectively the "Participating Districts"), contracts directly with the GCWA for required facilities and does not have a contract with other Participating Districts. The GCWA is not a participating facility user.

The GCWA serves as the sponsor and common provider to each of its Participating Districts of facilities and related services and has full legal title and ownership to facilities, subject only to the contractual rights of the Participating Districts to receive services.

The GCWA invests its own capital funds in the construction and acquisition of the required facilities. Each Participating District makes a payment to the GCWA to defray the costs of construction of capital facilities proportionate to the contractual rights of use (or capacity rights) of such districts pursuant to its contract with the GCWA. Thus, each Participating District has invested funds in the acquisition of such contract rights; however, no Participating District owns nor has legal title to all or any portion of the physical facilities providing such services.

Under these circumstances, the District's relationship with the GCWA is not considered to constitute either a shared facilities agreement or a joint venture arrangement.

NOTE 11 - 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 that exceeded coverage amounts for the current year or the three prior years.

NOTE 12 - COMMITMENTS & CONTINGENT LIABILITIES

Water and Sewer Line Project to FM 646, Texas State Highway 6, and FM 1764

The District approved an interlocal agreement with SFEDC on August 21, 2012. The agreement expired on June 30, 2016. A second interlocal agreement with SFEDC was signed on August 16, 2016 extending the Agreement through June 2018. Pursuant to the Interlocal Agreement, the SFEDC agreed to contribute funds for the construction, surveying, engineering, and related costs of relocating and adding water and sewer lines to FM 646, Texas State Highway 6, and FM 1764, not to exceed a total of one million dollars (\$1,000,000). A total amount of \$777,902 has been contributed by the SFEDC and a total of \$777,902 has been expended as of December 31, 2017. The project was completed in 2017. Pursuant to the Agreement, the District agreed to pay back 50% of the expenses, not to exceed five hundred thousand (\$500,000) upon completion of the project. A repayment agreement was signed on July 27, 2017, whereby the District agreed to

**Galveston County Water Control and Improvement
District No. 8**

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

pay the EDC \$222,098 in three annual payments. Payments of \$74,033 per year will be due on or before September 30, 2018, 2019 and 2020.

Texas Department of Transportation (TxDot) also participated in this project, contributing \$587,934. As of December 31, 2017, \$65,326 retainage was due from TxDot.

Bond Construction Projects

During 2017, the District issued \$1,426,000 in bonds to finance the following construction projects: (1) The District plans to replace three boosters water pumps and make improvements to the electrical system, including system controls at water plant #1. (2) The District plans to replace water lines at 8th street (approximately 700 linear feet), 12th street (approximately 1,300 linear feet) and 16th street (approximately 1,300 linear feet). (3) The District plans to repair the bar screen, the awning over the sludge drying beds, and build a new service center at the wastewater treatment plant. (4) The District plans to make improvements at the offsite lift station and replace the old lift station on Anders Lane. Improvements include installing a new tank, pump and controls.

REQUIRED SUPPLEMENTARY INFORMATION

Galveston County Water Control and Improvement District No. 8

Exhibit C(1)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Water service charges	\$ 990,700	\$ 1,029,933	\$ 1,034,609	\$ 4,676
Sewer service charges	577,000	576,000	576,537	537
Property taxes	98,500	85,200	106,848	21,648
Penalties and interest	27,500	28,900	30,298	1,398
Tap connection and inspection fees	40,900	44,600	55,750	11,150
Investment earnings	1,500	1,300	1,562	262
Intergovernmental revenue	312,678	300,678	418,470	117,792
Other	4,800	69,208	65,587	(3,621)
Total Revenues	<u>2,053,578</u>	<u>2,135,819</u>	<u>2,289,661</u>	<u>153,842</u>
Expenditures				
Current:				
Purchased services	401,000	391,000	393,691	(2,691)
Professional fees	95,500	92,320	82,425	9,895
Contracted services	1,000	1,115	1,012	103
Utilities	94,500	96,500	92,081	4,419
Repairs and maintenance	299,400	383,909	357,724	26,185
Personnel services	742,000	692,330	703,937	(11,607)
Administration	59,500	88,139	69,680	18,459
Capital Outlay	316,678	417,370	368,890	48,480
Debt Service:				
Principal retirement	44,000	44,000	40,365	3,635
Interest and fiscal charges		22,769	3,461	19,308
Total Expenditures	<u>2,053,578</u>	<u>2,229,452</u>	<u>2,113,266</u>	<u>116,186</u>
Net Change in Fund Balance		(93,633)	176,395	270,028
Fund Balance - Beginning	740,168	740,168	740,168	
Fund Balance - Ending	<u>\$ 740,168</u>	<u>\$ 646,535</u>	<u>\$ 916,563</u>	<u>\$ 270,028</u>

Galveston County Water Control and Improvement District No. 8

Exhibit C(2)

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The budget was amended during the year by the Board.

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TEXAS SUPPLEMENTARY INFORMATION

Galveston County Water Control and Improvement District No. 8

SCHEDULE OF SERVICES AND RATES

For the Year Ended December 31, 2017

1. Services provided by the District:

<u> X </u>	Retail Water	<u> </u>	Wholesale Water	<u> </u>	Drainage
<u> X </u>	Retail Sewer	<u> </u>	Wholesale Sewer	<u> </u>	Irrigation
<u> </u>	Parks/Recreation	<u> </u>	Fire Protection	<u> </u>	Security
<u> </u>	Solid Waste/Garbage	<u> </u>	Flood Control	<u> </u>	Roads
<u> </u>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<u> </u>	Other (specify): _____				

2. Retail Service Providers

a. Retail rates based on 5/8" meter

Retail rates not applicable

The most prevalent type of meter (if not a 5/8"):

Not Applicable

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>
Water	<u>\$13.00</u>	<u>2,000</u>	<u>N</u>	<u>\$4.20</u>	<u>2,001 & over</u>
Wastewater	<u>\$13.00</u>	<u>2,000</u>	<u>N</u>	<u>\$ 2.20</u>	<u>2,001 & over</u>

District employs winter averaging for wastewater usage?

Yes No X

Total charges per 10,000 gallons usage:

Water \$46.60 Wastewater \$30.60

b. Water and Wastewater Retail Connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
< or = .75"	<u>2,125</u>	<u>2,070</u>	x 1.0	<u>2,070</u>
1"	<u>69</u>	<u>66</u>	x 2.5	<u>165</u>
1.5"	<u>4</u>	<u>3</u>	x 5.0	<u>15</u>
2"	<u>40</u>	<u>36</u>	x 8.0	<u>288</u>
3"	<u>1</u>	<u>1</u>	x 15.0	<u>15</u>
4"	<u>3</u>	<u>3</u>	x 25.0	<u>75</u>
6"	<u>2</u>	<u>2</u>	x 50.0	<u>100</u>
8"	<u> </u>	<u> </u>	x 80.0	<u> </u>
10"	<u> </u>	<u> </u>	x 115.0	<u> </u>
Total Water	<u>2,244</u>	<u>2,181</u>	<u> </u>	<u>2,728</u>
Total Wastewater	<u>1,964</u>	<u>1,907</u>	x 1.0	<u>1,907</u>

3. Total Water Consumption During the Fiscal Year: (Rounded to the nearest thousand)

Gallons pumped into system:	195,767,900	Water Accountability Ratio
		(Gallons billed/Gallons pumped)
Gallons billed to customers:	155,263,515	79.3%

4. Standby Fees (n/a)

5. Location of District:

County(ies) in which District is located. Galveston

Is the District located entirely within one county? Yes X No

Is the District located within a city? Entirely X Partly Not at all

City(ies) in which District is located. City of Santa Fe

Is the District located within a city's extra territorial jurisdiction (ETJ)?
Entirely Partly Not at all X

ETJ's in which District is located. _____

Are Board members appointed by an office outside the District?
Yes No X

If yes, by whom? _____

Galveston County Water Control and Improvement District No. 8

TSI-2

SCHEDULE OF GENERAL FUND EXPENDITURES

For the Year Ended December 31, 2017

Current

Personnel Services	<u>\$ 703,937</u>
Professional Fees:	
Auditing	17,200
Engineering	7,924
Legal	9,907
Lab services	27,993
Other	19,401
	<u>82,425</u>
Purchased Services for Resale - Bulk water purchases	<u>393,691</u>
Contracted Services:	
Legal notices	<u>1,012</u>
Utilities	<u>92,081</u>
Repairs and Maintenance	<u>357,724</u>
Administration:	
Training and dues	8,996
Office supplies	8,670
Insurance	29,680
Other	22,334
	<u>69,680</u>
Capital Outlay	<u>368,890</u>
Debt Service	<u>43,826</u>
Total Expenditures	<u><u>\$ 2,113,266</u></u>
Number of employees employed by the District:	<u>10</u> Full-time

Galveston County Water Control and Improvement District No. 8

TSI-3

SCHEDULE OF TEMPORARY INVESTMENTS

For the Year Ended December 31, 2017

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Balances at December 31, 2017</u>
<u>General Fund</u>				
Certificate of deposit	40418699	0.55%	1/7/2018	\$ 9,225
Certificate of deposit	41002144	0.35%	8/24/2018	81,000
Certificate of deposit	41002820	0.25%	3/21/2018	253,889
TexPool	7897000001	Variable	N/A	2,186
TexPool	7897000003	Variable	N/A	500
Total General Fund				<u>346,800</u>
<u>Debt Service Fund</u>				
Certificate of deposit	41002819	0.25%	3/21/2018	101,556
Certificate of deposit	41002857	0.35%	1/24/2018	127,111
TexPool	7897000002	Variable	N/A	958
Total Debt Service Fund				<u>229,625</u>
Total - All Funds				<u>\$ 576,425</u>

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Galveston County Water Control and Improvement District No. 8

TSI-4

ANALYSIS OF TAXES LEVIED AND RECEIVABLE

For the Year Ended December 31, 2017

	General Fund	Debt Service Fund	Total
Taxes receivable - January 1, 2017	\$ 77,572	\$ 226,608	\$ 304,180
Adjustments	(355)	(966)	(1,321)
Adjusted taxes receivable - January 1, 2017	77,217	225,642	302,859
2017 original tax levy	166,010	310,827	476,837
Additions and corrections	8,698	16,288	24,986
Adjusted tax levy	174,708	327,115	501,823
Total to be Accounted for	251,925	552,757	804,682
<u>Tax Collections</u>			
Current year	98,855	185,090	283,945
Prior years	66,555	203,739	270,294
Total Collections	165,410	388,829	554,239
Taxes Receivable - December 31, 2017	\$ 86,515	\$ 163,928	\$ 250,443

Taxes Receivable - By Tax Year

2017	\$ 75,854	\$ 142,024	\$ 217,878
2016	1,336	4,089	5,425
2015	820	2,619	3,439
2014	430	1,455	1,885
Prior	8,075	13,741	21,816
Taxes Receivable - December 31, 2017	\$ 86,515	\$ 163,928	\$ 250,443

	2017	2016	2015	2014
<u>Property Valuations</u>				
Land	42,305,091	42,142,191	42,148,918	40,492,281
Improvements	186,877,057	147,906,545	131,584,366	116,529,519
Personal Property	15,277,841	14,822,141	16,892,375	16,935,815
Exemptions	(58,599,512)	(29,606,261)	(27,118,596)	(24,518,097)
Total Property Valuations	\$ 185,860,477	\$ 175,264,616	\$ 163,507,063	\$ 149,439,518
<u>Tax Rates Per \$100</u>				
<u>Valuations</u>				
Debt service	\$ 0.176000	\$ 0.187300	\$ 0.200900	\$ 0.216100
Maintenance and operations *	0.094000	0.061200	0.062900	0.063900
Total Tax Rate per \$100 Valuation	\$ 0.270000	\$ 0.248500	\$ 0.263800	\$ 0.280000
Adjusted Tax Levy	\$ 501,823	\$ 435,533	\$ 431,332	\$ 418,431

Percent of taxes collected to taxes levied (as adjusted) **	*** 56.6%	98.8%	99.2%	99.6%
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* Maximum maintenance tax rate approved by voters: \$.30 on 11/2/1999

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

*** In process of collection.

Galveston County Water Control and Improvement District No. 8

LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS

December 31, 2017

Due During Fiscal Year Ending December 31	Total All Series			Series 2009		
	Principal Due April 1	Interest Due April 1, October 1	Total	Principal Due April 1	Interest Due April 1, October 1	Total
2018	\$ 100,000	\$ 265,237	\$ 365,237	\$ 30,000	\$ 78,737	\$ 108,737
2019	105,000	266,758	371,758	30,000	76,824	106,824
2020	156,000	260,208	416,208	35,000	74,753	109,753
2021	160,000	252,836	412,836	35,000	72,522	107,522
2022	175,000	245,001	420,001	40,000	70,131	110,131
2023	185,000	236,564	421,564	40,000	67,581	107,581
2024	200,000	227,274	427,274	45,000	64,872	109,872
2025	210,000	217,789	427,789	50,000	61,844	111,844
2026	225,000	208,773	433,773	50,000	59,063	109,063
2027	235,000	199,544	434,544	55,000	56,569	111,569
2028	255,000	189,560	444,560	60,000	53,837	113,837
2029	270,000	178,699	448,699	65,000	50,869	115,869
2030	285,000	167,128	452,128	70,000	47,663	117,663
2031	305,000	154,701	459,701	75,000	44,125	119,125
2032	325,000	141,182	466,182	80,000	40,250	120,250
2033	345,000	126,691	471,691	85,000	36,125	121,125
2034	370,000	111,169	481,169	95,000	31,625	126,625
2035	395,000	94,500	489,500	100,000	26,750	126,750
2036	420,000	76,594	496,594	110,000	21,500	131,500
2037	445,000	57,350	502,350	115,000	15,875	130,875
2038	475,000	36,781	511,781	125,000	9,875	134,875
2039	505,000	14,850	519,850	135,000	3,375	138,375
2040	105,000	1,768	106,768			
Total	<u>\$ 6,251,000</u>	<u>\$ 3,730,957</u>	<u>\$ 9,981,957</u>	<u>\$ 1,525,000</u>	<u>\$ 1,064,765</u>	<u>\$ 2,589,765</u>

Due During Fiscal Year Ending December 31	Series 2010			Series 2017		
	Principal Due April 1	Interest Due April 1, October 1	Total	Principal Due April 1	Interest Due April 1, October 1	Total
2018	\$ 70,000	\$ 150,301	\$ 220,301	\$	\$ 36,199	\$ 36,199
2019	75,000	146,495	221,495		43,439	43,439
2020	80,000	142,426	222,426	41,000	43,029	84,029
2021	85,000	138,095	223,095	40,000	42,219	82,219
2022	90,000	133,501	223,501	45,000	41,369	86,369
2023	100,000	128,514	228,514	45,000	40,469	85,469
2024	105,000	123,133	228,133	50,000	39,269	89,269
2025	110,000	118,176	228,176	50,000	37,769	87,769
2026	120,000	113,516	233,516	55,000	36,194	91,194
2027	125,000	108,431	233,431	55,000	34,544	89,544
2028	135,000	102,904	237,904	60,000	32,819	92,819
2029	145,000	96,811	241,811	60,000	31,019	91,019
2030	150,000	90,321	240,321	65,000	29,144	94,144
2031	160,000	83,501	243,501	70,000	27,075	97,075
2032	175,000	76,044	251,044	70,000	24,888	94,888
2033	185,000	67,944	252,944	75,000	22,622	97,622
2034	195,000	59,394	254,394	80,000	20,150	100,150
2035	210,000	50,281	260,281	85,000	17,469	102,469
2036	220,000	40,469	260,469	90,000	14,625	104,625
2037	240,000	29,831	269,831	90,000	11,644	101,644
2038	255,000	18,384	273,384	95,000	8,522	103,522
2039	270,000	6,244	276,244	100,000	5,231	105,231
2040				105,000	1,768	106,768
Total	<u>\$ 3,300,000</u>	<u>\$ 2,024,716</u>	<u>\$ 5,324,716</u>	<u>\$ 1,426,000</u>	<u>\$ 641,476</u>	<u>\$ 2,067,476</u>

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Galveston County Water Control and Improvement District No. 8

TSI-6

ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT

For the Year Ended December 31, 2017

	Bond Issue			Total
	Series 2009 Bonds	Series 2010 Bonds	Series 2017 Bonds	
Interest rate	4.75%-6.375%	4.0%-5.25%	2.0%-3.75%	
Dates interest payable	4/1;10/1	4/1;10/1	4/1;10/1	
Maturity dates	4/1/2011- 4/1/2039	4/1/2011- 4/1/2039	4/1/2020- 4/1/2040	
Bonds outstanding at beginning of year	\$ 1,550,000	\$ 3,370,000	\$	\$ 4,920,000
Bonds issued			1,426,000	1,426,000
Principal retirements	(25,000)	(70,000)		(95,000)
Bonds Outstanding at End of Year	<u>\$ 1,525,000</u>	<u>\$ 3,300,000</u>	<u>\$ 1,426,000</u>	<u>\$ 6,251,000</u>
Interest Retirements	<u>\$ 80,491</u>	<u>\$ 153,976</u>	<u>\$ -</u>	<u>\$ 234,467</u>

Paying Agent's Name and City

Series 2009 Bonds	Wells Fargo Bank, NA
Series 2010 Bonds	Wells Fargo Bank, NA
Series 2017 Bonds	ZB, National Association

<u>Bond Authority</u>	<u>Refunding and Tax Bonds</u>
Amount authorized	\$ 5,126,000
Amount issued	<u>5,126,000</u>
Remaining	<u>\$ -</u>

Debt Service Fund Cash and Temporary Investment Balances at End of Year	<u>\$ 447,640</u>
Average Annual Debt Service Payment for Remaining Term of all Debt	<u>\$ 433,998</u>

Galveston County Water Control and Improvement District No. 8

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - GENERAL AND DEBT SERVICE FUNDS

Last Five Fiscal Years

	Amounts				
	2017	2016	2015	2014	2013
<u>General Fund Revenues</u>					
Water and sewer service	\$ 1,611,146	\$ 1,541,629	\$ 1,410,498	\$ 1,405,719	\$ 1,421,837
Property taxes, penalties and int.	137,146	146,943	109,295	124,722	124,806
Tap connection and inspection fees	55,750	73,900	62,950	44,510	38,150
Investment income and other	485,619	1,617,325	515,028	1,007,567	1,244,011
Total Revenues	2,289,661	3,379,797	2,097,771	2,582,518	2,828,804
<u>General Fund Expenditures</u>					
Current	1,700,550	1,703,218	1,561,181	1,449,139	1,630,633
Capital outlay	368,890	1,663,033	533,032	1,061,705	1,266,756
Debt service	43,826	43,826	43,826	43,826	43,826
Total Expenditures	2,113,266	3,410,077	2,138,039	2,554,670	2,941,215
Revenues Over (Under) Expenditures	\$ 176,395	\$ (30,280)	\$ (40,268)	\$ 27,848	\$ (112,411)
<u>Debt Service Fund Revenues</u>					
Property taxes, penalties and int.	\$ 335,693	\$ 369,918	\$ 281,634	\$ 328,183	\$ 326,398
Investment income and other	2,787	319	639	181	550
Total Revenues	338,480	370,237	282,273	328,364	326,948
<u>Debt Service Fund Expenditures</u>					
Debt service	330,473	330,104	325,847	323,614	322,645
Total Expenditures	330,473	330,104	325,847	323,614	322,645
Revenues Over (Under) Expenditures	\$ 8,007	\$ 40,133	\$ (43,574)	\$ 4,750	\$ 4,303
Total Active Retail Water Connections	2,244	2,220	2,176	2,002	1,985

Percent of Total Fund Revenues

2017	2016	2015	2014	2013
70.4 %	45.7 %	67.2 %	54.4 %	50.3 %
6.0	4.3	5.2	4.8	4.4
2.4	2.2	3.0	1.7	1.3
21.2	47.8	24.6	39.1	44.0
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
74.3	50.4	74.4	56.1	57.6
16.1	49.2	25.4	41.1	44.8
1.9	1.3	2.1	1.7	1.5
<u>92.3</u>	<u>100.9</u>	<u>101.9</u>	<u>98.9</u>	<u>103.9</u>
<u>7.7 %</u>	<u>(0.9) %</u>	<u>(1.9) %</u>	<u>1.1 %</u>	<u>(3.9) %</u>
99.2 %	99.9 %	99.8 %	99.9 %	99.8 %
0.8	0.1	0.2	0.1	0.2
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
97.6	89.2	115.4	98.6	98.7
<u>97.6</u>	<u>89.2</u>	<u>115.4</u>	<u>98.6</u>	<u>98.7</u>
<u>2.4 %</u>	<u>10.8 %</u>	<u>(15.4) %</u>	<u>1.4 %</u>	<u>1.3 %</u>

Galveston County Water Control and Improvement District No. 8

TSI-8

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS

December 31, 2017

District's Mailing Address: P.O. Box 337, Sante Fe, Texas 77510
District's Business Telephone Number: (409) 925-2821
Submission Date of most recent District Registration Form
(TWC Sections 36.054 and 49.054) April 13, 2017
Limit on Fees of Office that a Director may receive during a year: \$ 7,200

<u>Names</u>	<u>Term or Date Hired</u>	<u>Fees of Office Paid</u>	<u>Expenses</u>	<u>Title at Year-End</u>
<u>Board Members</u>				
C. T. Anderson	5/14-5/18	\$ 2,250		President
Max D. Tully	5/16-5/20	2,550		Vice- President
David K. Tyner	5/16-5/20	3,150		Secretary/ Treasurer
Bobby J. Wylie	9/15-5/18	2,700		Assistant Secretary/ Treasurer
William F. "Fritz" Barnett	5/14-5/18	2,250		Director
<u>Key Administrative Personnel</u>				
James Newman	2004			Superintendent
<u>Consultants</u>				
Bacon & Wallace, L.L.P.		\$ 47,872		Attorney
Sante Fe ISD		2,400		Tax Collector
Galveston Central Appraisal District		3,468		Appraisal District
Perdue, Brandon, Fielder, Collins & Mott		-		Delinquent Tax Attorney
John D. Mercer & Associates Inc.		21,407		Engineer
Sander Engineers		15,104		Engineer
First Southwest (Hilltop Securities)		35,092		Financial Advisor
Carr Riggs & Ingram		12,200		Former Auditor
Knox Cox & Company, LLP		-		Independent Auditor

APPENDIX B

SPECIMEN MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: \$ in aggregate principal amount of

Policy No: -N

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